Austria ... Sch. 15	Indonesia .. Rp 1600	Philippines . Pes. 20
Bahrain .. Din.0.650	Italy .... L 1100	Portugal ... Esc 85
Belgium ..... BFr 35	Japan Y550	S. Arabia .. Rls 6.00
Canada ... C$2.50	Jordan ... Fils 500	Singapore . S$ 4.10
Denmark .. Dkr 7.00	Kuwait ... Fils 500	Spain ...... Pts 95
Egypt ..... E£1.00	Lebanon .. £L 6.00	Sweden .. Skr 6.50
Finland .. Fmk 5.00	Luxembourg . LFr 35	Switzerland . SwFr 2
France .. FFr. 5.00	Malaysia .. Rls 4.25	Tunisia .. Din 0.600
Germany . DM 2.00	Morocco .. Dh 6.00	Turkey .... L 130
Greece ..... Dr 60	Netherlands . Fl 2.25	U.A.E. ... Dh 6.50
India .... Rup. 15	Norway .. Nkr. 6.00	U.S.A. $1.50

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FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,035 — Monday March 28 1983 — D 8523 B

Austerity package is Mitterrand's biggest gamble, Page 14

NEWS SUMMARY

GENERAL

Argentine unions to defy ban on strike

Argentina's rival trade union groups decided to reject a last-minute government pay offer and to defy a government ban by going ahead with today's 24-hour general strike.

It is the second general strike within four months. There is growing political tension and new rumours of possible coup attempts.

Some union leaders have been demanding 330 per cent pay increases, but 12 per cent in the offer for private and public sector workers. Page 2

Arafat in Riyadh

Palestinian leader Yassir Arafat, on his way to Amman for talks with Jordan's King Hussein about U.S. Middle East peace proposals, made an unexpected stop in Riyadh to have talks with Saudi leaders. Page 16

'Palestinians back'

Palestinian guerrillas have been re-establishing themselves in southern Lebanon, says the Israeli Army.

Eight Israeli soldiers held by the PLO have been moved from Lebanon to another Arab country because the Israelis were planning an operation to release them, said Palestinians.

Schoolgirls poisoned

Two hundred and thirty Palestinian schoolgirls from the West Bank were in hospital yesterday suffering from headaches, dizziness and burning eyes after mass poisoning, probably through inhalation, at three schools. Israeli authorities said Palestinian guerrillas might have been responsible.

Pym's Arab trip

British Foreign Secretary Francis Pym is to pay an official three-day visit to the United Arab Emirates from Monday.

UN chief in Moscow

United Nations Secretary-General Javier Perez de Cuellar arrived in Moscow for talks about the eventual withdrawal of Soviet troops from Afghanistan.

Zapu ban threatened

Zimbabwe Premier Robert Mugabe has threatened to ban Opposition party Zapu unless it disarms its dissidents in Matabeleland. Page 2

Morocco claim

Morocco's last territorial claims against Spain, for the enclave towns of Ceuta and Melilla, overshadows the visit of Spanish Premier Felipe González today and tomorrow. Page 2

Fraser quits politics

Former Australian Premier Malcolm Fraser, 52, announced that he would leave politics on Thursday, just 28 days after his conservative government was swept from power in the general election.

Turkish press curb

Turkish Government is planning tighter press restrictions in preparation for a return to parliamentary government reported the newspaper Cumhuriyet.

Non-tin can launched

Britain's leading packaging company Metal Box and the UK subsidiary of Campbell's Soups have launched the world's first plastic can, made of Lamipac, a laminate. Page 6

Walesa in procession

Lech Walesa, who led the now-banned Polish union movement Solidarity, carried a charred wooden cross with a rosary made from prison bread by jailed colleagues in a Gdansk church procession.

BUSINESS

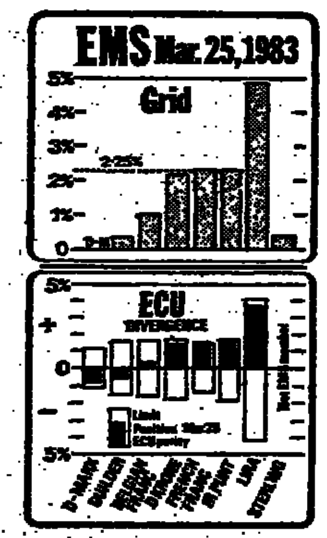
Japanese ease way for imports

● JAPAN has made it easier for foreign manufacturers to introduce their goods, with Cabinet approval for a series of measures simplifying procedures for testing imports. Page 16

● SAUDI ARABIA said foreign companies winning development contracts would have to give at least 30 per cent of the work to local companies. Page 16

Magazine editor Jorge Fontevecchia, whose arrest has been ordered by the military rulers, has taken refuge in the Venezuelan embassy.

● THE D-MARK fell to the bottom of the European Monetary System last week, but the economic performance and inflation rates of Germany's currency partners during the coming months will determine how long it remains there.



The strength of the D-Mark, particularly after the result of the German general election, was the major factor behind the realignment of the EMS, and agreement was reached only last Monday after protracted discussions in Brussels.

The French austerity measures announced on Friday met with a warm reception, keeping the French franc near its ceiling against the D-Mark.

The Belgian National Bank took advantage of calmer EMS trading in cutting its discount rate by 3 per cent.

The Irish punt, along with the French and Belgian francs, was sold at various times by the Bundesbank to prevent these currencies moving above their maximum limits against the D-Mark.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

● MINORCO (Minerals and Resources Corporation), registered in Bermuda announced a net loss of $13.2m for the half ended December, compared with a $63.2m profit for the same half in 1981, primarily due to a $50m drop in investment income. Page 16

● CREDIT SUISSE affiliate, CS Holding is to be included in the bank's consolidated figures for the calculation of capital resource requirements, following a ruling of the Swiss Federal Banking Commission. Page 18

● SANDOZ, the Swiss chemical company, increased consolidated earnings to SwFr 273m ($131.2m) last year, and plans to increase its dividend for the first time since 1978. Page 18

● ECUADOR has requested a $170m standby loan from the IMF. Trade unions have suspended their general strike against Government economic measures.

● ABU DHABI will shelve projects costing 3.9bn dirhans ($1.05bn) and cut other spending because of falling oil prices.

Severity of austerity measures stuns the French

BY PAUL BETTS IN PARIS

FRANCE was in a coma at the weekend as the brutal new economic measures announced by the Government on Friday slowly began to sink in throughout the country.

Most people in France had braced themselves for a tough package of austerity measures after the latest devaluation of the franc, but few had expected anything quite as severe.

The rigid new travelling restrictions for French tourists, the obligation on taxpayers to subscribe to a three-year government loan and a new 1 per cent levy to help bail out the social security system coupled with increases in utility and rail tariffs were among the measures causing the most consternation.

A banker with a large nationalised French investment bank remarked a bit sadly at dinner on Saturday: "Like in some other distressed countries, when people from abroad come to see us we will now ask them to bring us a bottle of whisky." He was referring to new "sin taxes" in the package involving hefty increases in the prices of spirits and cigarettes.

But public reaction on the whole has so far been relatively muted. This appeared to reflect the general state of shock at the severity of the measures. Newspapers, of course, had a field day with screaming headlines ranging from the word "Dur" all over the front page of Liberation or "the hatchet" on the front of another.

Undoubtedly, the most imaginative headline was in the pro-Socialist Le Matin which ran across its front page "Capri C'est Fini" after a popular French song of the sixties.

But Mme Edith Cresson, the new Foreign Trade Minister and former agriculture minister, defended the FFr 2,000 ($275) per adult a year travelling allowance yesterday claiming the new exchange control measures were "a national necessity." She also claimed the measures were neither protectionist nor a threat to the individual freedom of the French. Earlier she said: "France is a magnificent country and to encourage people to travel in France is not protectionism."

But Mme Cresson, also the Minister of Tourism, came under heavy fire yesterday from French travel agents who disrupted a meeting of the Socialist Party she attended in Paris.

The travel agents have been by far the most vocal and angry of any group in France against the government package. They heckled Mme Cresson claiming the FFr 2,000 travel restriction per adult a year would ruin their business.

In the face of the mounting protests against this measure in the austerity package, the French Government yesterday sought to minimise the impact of the new exchange control measures. Mme Cresson said the restriction would only apply this year. This was also confirmed by the Finance and Economy Ministry.

Nonetheless, the fact the Government waited until yesterday to say the controversial measure would only be in effect this year suggested some hasty back-tracking. The Finance and Economy Ministry said it was setting up as of today a special office to assist travel agents with problems raised by the new regulations.

But if travel agents are up in arms, the most active stock in the Paris bourse on Friday was Club Mediterranée which gained 5 per cent on the day. The tourism company, brokers believe, should benefit from the new restrictive travel measures.

The brokers argue French tourists will now be forced to turn increasingly to pre-paid all-inclusive packages like those offered by the Club Mediterranée group.

Trade union leaders, the opposition parties, French business and the various factions within the French Left have been remarkably restrained so far in their reactions to the measures.

M Henri Krasucki, the head of the pro-Communist CGT labour confederation, said his union agreed with the Government's general aims but criticised the latest measures in that they hit low income workers too harshly. The pro-Socialist CFDT labour confederation was much tougher on the Government claiming the measures threatened jobs and went against the spirit of its earlier economic and social commitments.

The Patronat complained the

Continued on Page 16

Mitterrand's toughest gamble, Page 14

Moscow and U.S. in heated row over 'space war'

By Reginald Dale in Washington

RELATIONS between the U.S. and the Soviet Union appear to have seriously deteriorated after President Ronald Reagan's speech last week which called for a new system of space-age defence against Soviet strategic missiles.

Mr Yuri Andropov, the Soviet leader, took the unusual step at the weekend of calling Mr Reagan a liar in overestimating Soviet military strength. The charge drew a response from Mr Caspar Weinberger, the U.S. Defence Secretary, that Moscow was conducting its normal campaign of "simple, standard disinformation."

The Soviet Union was trying to influence world opinion by totally incorrect and very false statements, Mr Weinberger said on American television. This month's West German elections showed it was not succeeding all that well.

Mr Weinberger said that Mr Reagan's aim was to achieve for the U.S. "a defence that cannot be penetrated." The sort of anti-ballistic missile system that Mr Reagan proposed last week, probably involving both ground and space-based laser weapons, was technically feasible, he said. He thought that defences could also be developed against low-flying cruise missiles as well as against ballistic weapons.

The Administration was not thinking of a crash programme, but of continuing what was already being done on an increased scale. With a substantial effort, he said, "I think it can be done."

Mr Weinberger called the development "a very hopeful thing for mankind." He said that Mr Reagan's proposal could solve the whole strategic arms problem by removing threats of retaliation.

The Defence Secretary said that the Soviet Union had done "a lot of work" in the same area. He rejected suggestions that the time might be right for a joint superpower approach to the new technology, and said that the priority was to develop the American scientific effort.

The U.S. Administration has asked for $1bn in the coming budget year that starts on October 1 for strategic defence systems. But only $250m of this is assigned to the new technologies. The rest would be for traditional ground-launched missiles with nuclear warheads.

Mr Weinberger said, however, that some of the money could be reallocated from the conventional to the new types of technology.

Casual revolution in U.S. nuclear strategy, Page 15

Orders upsurge for UK industry points to sustained recovery

BY ROBIN PAULEY IN LONDON

Further evidence that the British economy may be emerging from recession, with most sectors of manufacturing industry starting to recover strongly, comes today from the Confederation of British Industry (CBI).

The employers' group's monthly trends survey of about 1700 companies shows a strong improvement in demand across most sectors, particularly in the consumer goods industries, and domestic order books have been stronger during March than at any time since December 1979.

A similarly sharp improvement in export orders has also been reported, partly helped by the fall in sterling. In the last heavy fall in sterling early in 1981 some parts of industry, notably the chemical sector, showed the benefits remarkably quickly. This pattern has been repeated in the current slide in sterling, with the chemical sector again at the forefront of the export orders recovery.

The survey results, which have previously been consistently accurate, also reflect widespread belief among industrialists that output will continue to improve this year and that the economic recovery may be sustained. This is in marked contrast to last spring when the Government repeatedly proclaimed an economic recovery while the monthly CBI trends presented a consistently dismal picture of the state of industry which, in the event, proved correct.

CBI economists, reinforced by two successive surveys showing strong improvement, are now convinced that the recovery will not now turn out to be another false dawn.

Sir James Cleminson, CBI chairman, sounds two cautionary notes about the brighter outlook, however. The first is that although demand is rising it is doing so from exceptionally low levels. The second is that in some industrial sectors demand remains very depressed with little sign yet of improvement. They are mainly in the heavy and mechanical engineering areas, aerospace and metals.

Another indicator for improved output in the months to come is that the heavy run-down of stocks throughout last year, and particularly in the last quarter, seems to be over. In March the balance of companies reporting excessive stocks of finished goods was 12 per cent, the lowest since November 1979. It compares with figures as high as 23 per cent last summer and again in November.

In the electrical engineering sector more companies now think that their inventories are less than adequate than say they still have more than adequate stocks.

In the last half of 1982, British consumer demand advanced rapidly, helped by lower mortgage interest rates and easier credit conditions, moving retail sales in the last three months of 1982 5 per cent higher than a year before.

But this consumer boom, bringing relief to retailers after three very tight years, produced no improvement in domestic output and was only partly met by imports, the rest coming from stocks.

Although the consumer boom has has now lost some of its steam, even modest further advances cannot apparently be met from stocks and, in so far as they are met domestically, will lead to rising output.

A balance of 16 per cent of companies expects rising volumes of output in the next four months, the highest since June 1979. In December a balance of 11 per cent expected falling volume of output in the four months ahead.

One aspect of the survey likely to be welcomed by Government ministers as inflation is widely expected

Continued on Page 16

Germans more confident of business upturn

BY JONATHAN CARR IN BONN

WEST GERMAN industrialists are more buoyant about their business prospects than they have been for four years, according to a survey released today by IFO, the Munich-based economic research institute.

The news follows an agreement on a moderate wage rise for the country's chemical workers and amid signs that accord is also at hand in the key metalworking sector.

The IFO survey shows that for the first time since early 1979, the number of firms expecting a business upturn over the next half-year exceeds the number which does not.

That goes for manufacturers of consumer goods in particular – but it also applies to the capital goods sector, especially to makers of electrical engineering products.

Even the hard-hit building industry is more encouraged, with enough orders on its books for 2.4 months compared with 2.2 months a year earlier. Until now, each year-on-year comparison since 1979 had shown a fall in the amount of building work to hand.

Warning against exaggerating these promising signs, IFO stresses that many companies are still unhappy about their current business, with low use of capacity.

Further this latest business survey reflects the position in February – before the latest revaluation of the D-Mark which many industrialists say could harm their export prospects.

But there are recent encouraging signs too – including a further fall in inflation to 3.7 per cent at an annual rate, the new drop in key interest rates by the central bank, and progress in this year's wage negotiating round.

In an accord reached late last Friday night, the country's 660,000 chemical workers are to receive wage increases of 3.2 per cent over 14 months (compared with the 4.2 per cent rise over 12 months they received in 1982).

At the same time, the chemicals negotiators took a first modest step towards shortening working hours and thus – perhaps – gradually helping cut unemployment too.

From September 1, chemical workers aged over 58 will be able to take an extra four hours free time every two weeks – cutting their average working week to 38 hours. From 1987, these older employees will have their average working week cut to 36 hours.

The trade union is able to argue that it has negotiated a reduction in hours without any cut in wages – while the employers say this arrangement was made possible by the relatively small wages rise now.

The log-jam in the wage negotiations for the country's 3.6m metalworkers also seems to be clearing.

Editorial comment, Page 14

China revives $6bn steel works project

BY MARK BAKER IN PEKING

CHINA has announced plans to resume development of the second stage of the ill-fated Baoshan steel works near Shanghai after a two-year freeze.

The announcement follows several years of mismanagement and indecision over the $6bn project as China has moved to reshape its economy.

It also coincides with the signing of a "memorandum of agreement" by China and Britain on the building of a $6bn nuclear power station in Guangdong province near Hong Kong.

The accord was signed by Mr Gordon Manzie, a senior official of the Department of Industry and China's First Deputy Minister of Water Conservancy and Power, Li Peng, at Peking airport shortly before Mr Manzie left for Hong Kong. GEC Turbine Generators hopes to supply the generating equipment for the station.

Work on the second stage of Baoshan, the largest industrial project in China's history, is to begin immediately after the scheduled September 1985 completion of the first stage, the State Council announced. No information was released on costs or financing.

The second stage was originally planned to include a sintering plant, a second blast furnace, a coking plant, a continuous ingot casting unit, a 1.65m tonne hot rolling mill and a 2.1m tonne cold rolling mill. After the deferral, agreements had to be renegotiated with Japan's Mitsubishi and West Germany's Schloemann-Siemag.

The Baoshan works ran into trouble soon after construction began in 1978: the site on an estuary of the Yangtze River was too marshy, an unforeseen sandbar at the mouth of the river stopped ore carriers berthing nearby and no calculation was made for pollution.

These blunders escalated the cost enormously and there were estimates that the project's total cost could exceed $20bn when infrastructure and worker facilities were included.

The state planning commission said yesterday that deferral of second stage had originally been made because China needed to readjust its economy "by reducing the scope of capital construction."

"The decision to continue the second stage construction was made following painstaking deliberation by the State Council weighing the pros and cons," it said.

The first stage was designed to produce 3m tonnes of seamless steel tubes, half of which will be used in China's offshore oil industry.

Liffe looks at new contracts

By Charles Batchelor in London

LONDON'S financial futures market, which is six months old on Thursday, may add a five-year Eurobond contract to the seven contracts it already offers.

A number of potential new contracts are being considered by the organisers of the London International Financial Futures Exchange (Liffe), but their concern at swamping the fledgling market with new ventures means any expansion is likely to be slow.

Members put a short-term gilt contract, the Eurobond and a share index contract at the top of their list of priorities.

The London Exchange has already reached the same trading volumes that its two Chicago counterparts took five years to achieve.

Liffe is trading about 4,500 contracts a day, significantly better than its own internal projection, giving an annual volume of more than 1m contracts, said Mr Bernard Reed, the marketing manager.

The Chicago Mercantile Exchange launched currency futures in 1972 while the rival Chicago

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Capital markets, Page 17, Financial futures, Page 28

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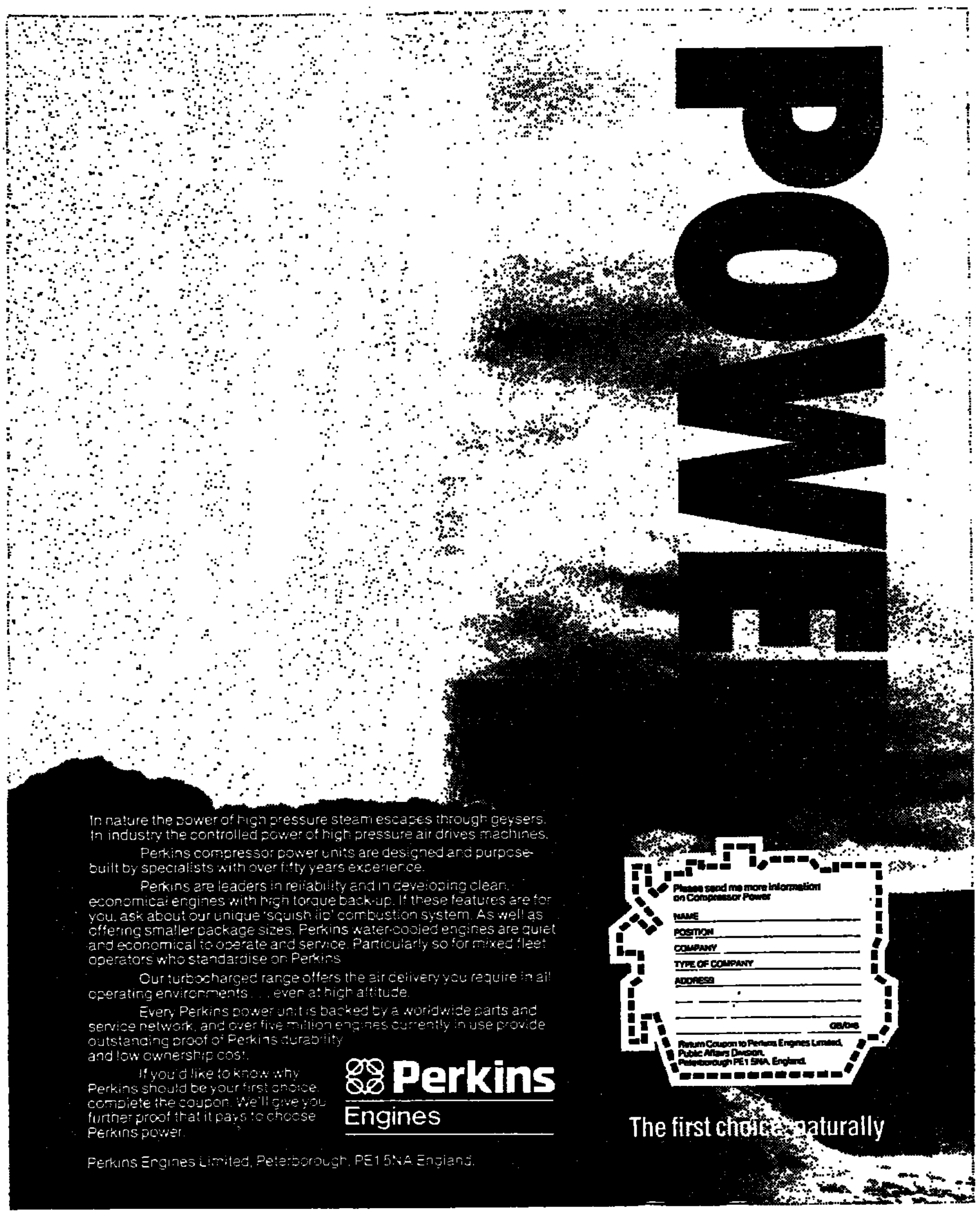


Bitter fighting continues in northern Nicaragua

BY TIM COONE IN MANAGUA AND HUGH O'SHAUGHNESSY IN LONDON

BITTER FIGHTING was reported between Nicaraguan government troops and former members of the National Guard of the late dictator General Anastasio Somoza in three northern departments of Nicaragua yesterday.

The situation in Managua, the capital, remains normal however. The civilian militias have not been called up and the Sandinista government appears confident it will crush an invasion it says is being supported by the U.S. Government.

In the fighting in the departments of Matagalpa, Nueva Segovia and Jinotega, Dr Pierre Grosjean, a member of a French Government-sponsored aid project studying leprosy, was killed.

Dr Grosjean was reported by Sr Tomás Borge, the Interior minister, to have been killed in the town of Rancherias 80 miles north of Managua, along with three Government troops. Seventeen civilians, including seven children were reported injured.

The Nicaraguan and Honduran governments are meanwhile exchanging increasingly strident accusations, the former accusing the latter of sending its troops into Nicaragua and the latter accusing the Sandinistas of provoking border incidents against Honduras.

On his return early yesterday from the Non-Aligned Movement's summit meeting in New Delhi and a short stopover in Moscow, Commandant Daniel Ortega, Coordinator of the ruling Sandinista junta, said that he had had 90 minutes discussion with Mr Yuri Andropov, the Soviet leader, who had pledged Moscow's "frank solidarity" with Nicaragua.

In another international development, General Soch Musleh Kassim, the South Yemeni Defence Minister, arrived in Managua for talks with his Nicaraguan opposite number, Commandant Humberto Ortega. South Yemen in the past has had close relations with Cuba.

The Sandinistas have sought and received Arab aid as a counterweight to Israeli assistance to the Somoza cause and to various right wing governments in Central America.

Despite the incursions by pro-Somoza forces from Honduras into Nicaragua, the Sandinista Government is not perceived to be in any immediate danger. Anti-Sandinista groups in Costa Rica who oppose the Government in Managua but are unwilling to throw in their lot with the pro-Somoza forces in Honduras, forecast that the present attack will eventually be driven off well before it reaches the Nicaraguan capital.

Mugabe gives Zapu 'final warning'

BY OUR HARARE CORRESPONDENT

MODERATES IN Zimbabwe's ruling Zanu and opposition Zapu parties who are seeking a unity pact have suffered a setback with a weekend speech by Mr Robert Mugabe, the Prime Minister, threatening to ban Zapu.

Mr Mugabe, in an uncompromising speech at a rally in the capital, said he was giving Zapu a "final warning to disarm their dissidents." If they didn't, he said, "we will disarm them as a party."

The Prime Minister ruled out talks with Zapu leaders to resolve differences over events in the troubled southern province of Matabeleland. There could be no talks, he said, as long as the opposition played a double game – appearing to co-operate with the Government but at the same time organising insurgent operations in Matabeleland.

Zapu officials, already dismayed at the Prime Minister's unwillingness to talk about the crisis created by Mr Joshua Nkomo's decision to go into self-imposed exile, were nonplussed at the demand that they should disarm and disband the dissidents, who are clearly outside the influence and control of the party leadership.

Mr Mugabe rejected calls for top-level talks designed to ensure Mr Nkomo's early return. "My government is not going to take any steps to bring him back. *It is not our duty or responsibility,*" he said.

Mr Nkomo was free to return and his safety was guaranteed, but the government would not interfere in any prosecution of Mr Nkomo, who faces allegations of breaching Zimbabwe's currency and security legislation.

Mr Mugabe's address suggests that there is little likelihood of the present military policy against the insurgents being supplemented by a search for a political solution.

Spain-Morocco talks on enclaves

BY DAVID WHITE IN MADRID

THE QUESTION of Morocco's last territorial claims against Spain – the North African enclave towns of Ceuta and Melilla – overshadows a two-day visit which Sr Felipe Gonzalez, the Spanish Prime Minister, starts in Morocco today.

The fact that this is the first official foreign trip that Sr Gonzalez has made since the Socialist election victory in Spain five months ago underlines the priority given by the new Madrid Government to North African relations as a plank of its foreign policy.

The talks with King Hassan and other Moroccan leaders are seen as essentially political, despite important outstanding economic issues between the two countries, notably fishing.

They were preceded last week by a visit to Algiers by a Spanish team headed by the Sr Alfonso Guerra, Deputy Prime Minister, covering international and bilateral issues, including Spain's request to scale down its contract for purchasing Algerian natural gas.

The timing of the two trips showed Madrid's effort to establish an even-handed approach to the Maghreb countries.

Sr Guerra's visit included a meeting with representatives of the Frente Polisario, Morocco's opponents in the former Spanish Western Sahara.

Argentine strike to go ahead today

By Jimmy Burns in Buenos Aires

THE SUCCESS of the 24-hour general strike planned for today was virtually assured over the weekend when rival branches of Argentina's main trade union organisation, the General Confederation of Labour (CGT) joined forces to reject a last-minute Government pay offer.

The military Government of President Reynaldo Bignone thus faces its second general strike in less than four months in a climate of growing political tension and renewed coup rumours.

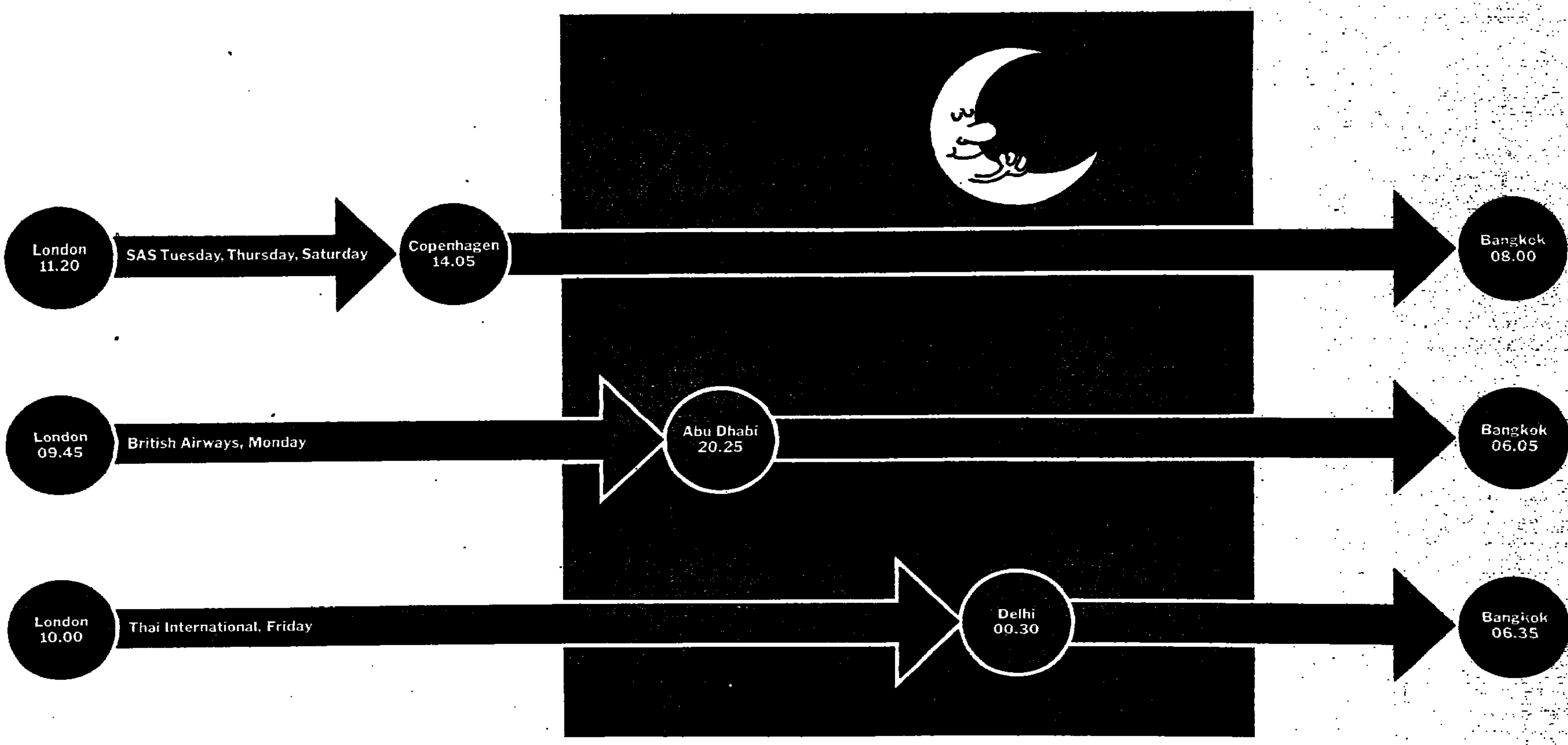
Officially, the strike is being held to protest the latest salary increases of 12 per cent for state and private employees, which falls far short of the 30 per cent demanded by some union leaders. The CGT leadership, under increasing pressure from its rank and file, is also dissatisfied with the new minimum wage level of 7m pesos ($104) compared to the previous 5m pesos.

The CGT had been demanding a 100 per cent increase in the minimum wage.

Underlying the strike is the CGT's determination to re-establish itself as a major political force in the run-up to the October 30 presidential election. Quite apart from the CGT's traditional links with the Peronist movement, a number of union leaders have contacted dissident military officers in a bid to put pressure on the present Government.

The Ministry of Labour yesterday threatened to declare today's strike illegal, in a move that could signal a major confrontation between the Government and the CGT. There were some reports that the homes of union leaders were being watched by security police in preparation for a wave of arrests.

Today's planned general strike is the first of a number of protests against the Government scheduled for this week, ahead of the first anniversary of the April 2 invasion of the Falklands. Hardline members of the CGT who are backing today's strike are staging a major protest rally on Wednesday.



Growth remains generally poor

THE CRISIS experienced by the East European economies in 1981 continued into 1982, with generally poor rates of growth. There are marked differences in performance: while East German growth was remarkably high, stagnation continued in Czechoslovakia. The Polish economy seemed to be making a slow recovery in the last half of the year in terms of output and productivity, but severe problems remain. Hungary's growth was better than forecast.

There has been an overall reduction in the net hard currency debt, as the credit squeeze by the commercial banks has continued. The general response to the recession by Comecon has been to try to cut hard currency imports and boost exports.

One measurement of the extent of subsidies in trade to the East European economies by the USSR is presented here. These figures suggest that trade with East Europe has been economically unfavourable for the USSR over the past decade, since it has been exchanging relatively underpriced energy and raw materials for relatively overpriced machinery and manufactured goods. In addition, these manufactures are of a poorer quality and lower technological level than those available on the world market. These calculations are complicated by the different forms of trade within Comecon: hard currency, rouble, and counter-trade or barter. Additional factors include the burden of defence spending and the fact that some East European countries have committed investment resources to the extraction of Siberian energy.

Economics Staff; data analysis by Financial Times Statistics Unit; charts and graphs by Financial Times Charts Department.

There are increasing strains in the relationships within Comecon due to the economic crisis, and particularly because of energy prices. The intra-Comecon oil price is calculated as a five-year moving average of world prices, so that the sharp rises of the 1970s did not have the same shock effect.

When oil prices were rising, Eastern Europe benefited from the lower priced Russian oil. Now, as world oil prices are falling, they stand to lose. It has also been argued that over the longer term, cheaper oil acted against effective energy conservation measures. Russian oil production from the newer Siberian fields has not been rising as fast as was hoped.

Eastern Europe generally had a very good grain harvest in 1982, with the crucial exception of the USSR. The yield figures show wide discrepancies, with Romania and Poland having low yields.

While the East German economy had a notable success in 1982, there are dangers for the future in cutting back on imports so severely. Supplies to industry and consumers are threatened, and in the longer-term, trading relationships are distorted and competitiveness damaged if the policy reduces access to imported technology.

The data on Hungary, an IMF member since last year, show some of the results of the move towards a more market-orientated economy. Price rises have been used, and labour shakeout has pushed up productivity. However, investments have proved more difficult to cut than planned.

SECTOR OUTPUT
Average annual percentage changes

	Agriculture 1971-75	Agriculture 1976-80	Industry 1971-75	Industry 1976-80
Bulgaria	2.9	0.9	9.2	6.0
Czechoslovakia	2.6	2.1	6.7	4.7
East Germany	2.7	1.2	6.5	5.1
Hungary	4.6	2.5	6.4	3.4
Poland	3.7	−1.6	10.4	4.6
Romania	6.5	3.8	13.0	9.4

Source: Official Statistics

The next Statistical Trends feature will appear on April 11

Economy

PRODUCED NATIONAL INCOME
(Annual/average annual change per cent)

	1961-65	1966-70	1971-75	1976-80	1981	1982
Bulgaria	6.7	8.8	7.8	6.1	4.5	4.0
Czechoslovakia	1.9	7.0	5.6	3.7	0.2	1.0
East Germany	3.4	5.3	5.4	4.1	4.5	3.0
Hugary	4.1	6.9	6.2	3.2	1.8	1.5
Poland	3.4	4.6	9.8	1.6	−13.0	−7.5
Romania	9.2	7.5	11.3	7.3	2.1	2.5
East Europe	4.0	6.1	7.3	4.0	−1.2	0.6

Source: Wharton, National Statistics

DEBT INCURRED and non-repayable aid from USSR 1972-81
(bn 1981 U.S.$)

	Rouble credits	Trade subsidies	Total
Bulgaria	1.3	17.8	19.1
Czech.	0.7	19.5	20.2
E. Germany	2.2	33.5	35.7
Hungary	0.4	12.2	12.6
Poland	2.8	17.9	22.7*
Romania	−0.5	1.0	0.5
E. Europe	6.9	101.9	110.8*

*Incl. $2bn debt.

Source: Various & Marrese: Implicit subsidies and non-market benefits in Soviet Trade with E. Europe

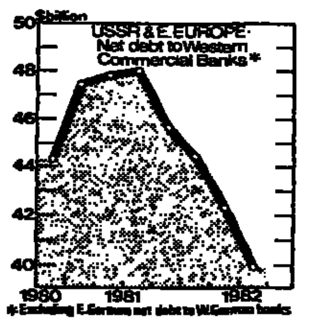
Finance

NET HARD CURRENCY DEBT
$bn

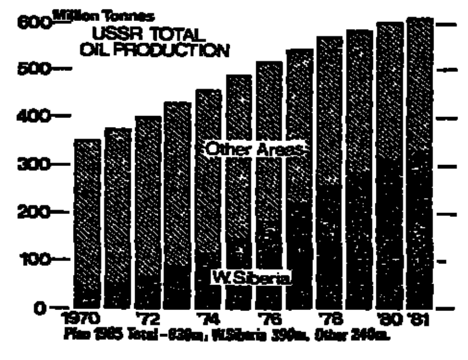
	1977	1981	1982	1985*
USSR	11.9	10.8	8.8	16.0
E. Europe	34.2	56.2	54.3	53.8
Bulgaria	2.8	2.2	1.7	1.7
Czechoslovakia	2.2	3.4	2.9	3.2
E. Germany	7.3	11.0	9.8	9.6
Hungary	4.0	6.7	6.5	6.7
Poland	13.8	23.2	24.3	24.5
Romania	4.1	9.7	9.1	8.1
Total	46.1	67.0	63.1	69.8

* Projection.

Source: Wharton



Oil and Energy



COMECON OIL TRADE

	Net trade (000 b/d)	Share of oil traded at world prices (%)	Impact on annual trade of $1 drop in price ($m)
USSR	+2,600	50	−474.5
Poland	−300	15	+16.4
E. Germany	−450	35	+57.5
Czech.	−340	5	+6.2
Hungary	−160	15	+8.8
Romania	−180	100	+65.7
Bulgaria	−200	20	+14.6

Source: Wharton Econometrics

USSR: NATURAL GAS EXPORTS
(cubic metres bn)

	1980	1990 (assumed)
France	4.0	12.0
W. Germany	10.7	22.0
Italy	7.0	14.0
Total OECD	25.6	70.0
Bulgaria	4.6	na
Czechoslovakia	7.3	na
E. Germany	5.7	na
Hungary	3.5	na
Poland	5.9	na
Romania	1.0	na
Total CMEA	28.0	6.0

Source: IEA

Agriculture

TOTAL GRAIN OUTPUT
(m tonnes)

	1979	1980	1981	1982	Yields (tonnes per hectare), 1981
E. Germany	8.9	9.6	8.9	10.0	3.56
Czechoslovakia	9.2	10.7	9.4	10.13	3.62
Hungary	12.0	13.8	12.6	14.8	4.57
Bulgaria	8.3	7.6	8.5	10.0	4.08
Poland	17.3	18.3	19.8	21.0	2.50
Romania	19.3	20.2	20.0	22.0	3.16
USSR	179	189	170	170-180	1.35

Source: U.S. Dept. of Agriculture, National Statistics

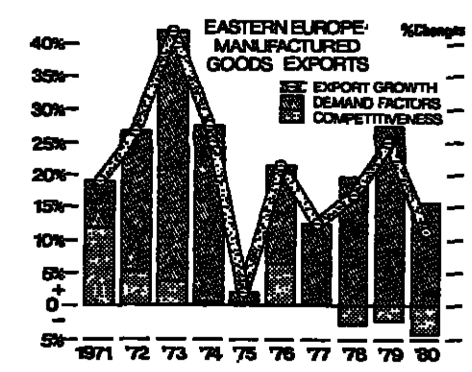
Trade

OECD-COMECON TRADE*
(U.S.$m)

	Exports to OECD	Imports from OECD	Exports to EEC	Imports from EEC
1979	37,044	39,996	22,892	21,070
1980	43,872	44,370	28,066	24,065
1981	40,464	40,968	24,564	19,806
1981†	28,779	30,537	17,201	15,070
1982†	29,895	27,543	19,203	12,654

* Excluding intra-German trade. † Jan.-Sept.

Source: OECD



East Germany

EAST GERMANY: INDICATORS
% changes

	1982	1981
Produced national income	3.0	4.5
Overall industrial production	5.0	5.1
State-run industry	4.3	5.9
Industrial labour productivity	4.3	5.0
Building production	4.1	4.2
Lignite production (m tonnes)	276	267
Real per capita earnings	3.3	4.0

Source: Official Statistics

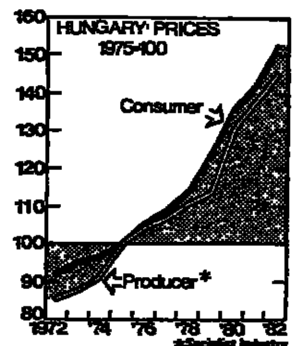
EAST GERMANY: TRADE
(U.S.$m + % changes)

	Exports	%	Imports	%
EEC*	1,200	−7.7	690	−42.5
UK	236	+26.9	110	−35.3
France	281	+7.3	249	−46.2
Italy	160	−20.2	125	−24.7
W. Germany	288	+9.9	291	+16.1
EFTA	846	+22.8	464	−21.1
W. Europe†	2,100	0.0	1,200	−40.0

* Excluding West Germany. † Excluding West Germany and Yugoslavia.

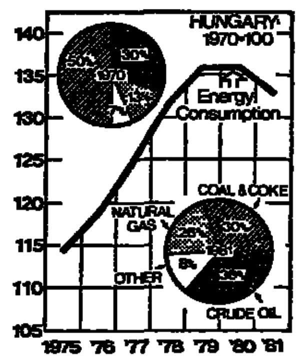
Source: National Statistics

Hungary



HUNGARY: INVESTMENT
(bn Forint current prices)

	Actual	Plan
1975	142.1	130.0
1976	151.3	150.0
1977	180.5	164.0
1978	196.5	182.0
1979	204.0	205.0
1980	189.7	184.0
1981	182.8	182.0
1982	185.4	na



HUNGARY
Commodity structure of trade %
1981

	Exports	Imports
Food, fuels, raw mats.	33.6	33.5
Chemicals	10.3	13.8
Machinery	30.9	28.1
Mnfctd. goods	24.0	24.1
Miscellaneous	1.2	0.5

Source: Central Statistical Office

HUNGARY
% of plant, equipment and machinery*

	1980
Building industry	14.5
Agriculture, forestry	18.9
Transport & communications	11.3
Commerce	21.4
Mining industry	31.4
Steel mills	36.4
Machinery industry	28.5

* Written down to zero.

WORLD TRADE NEWS

Element of theatre in EEC dismay at U.S. special steel ruling

BY PETER BRUCE

THERE IS an element of theatre about the expressions of dismay and outrage of EEC steel spokesman following last week's ruling by the U.S. International Trade Commission that imports of some special steels were "seriously injuring" the domestic U.S. industry.

The ruling, which could result in tugh curbs against Community and other producers when President Ronald Reagan is presented with ITC recommendations on May 6, was *scoffed at in Brussels.*

"The present situation of the U.S. steel industry is not the result of steel imports," said one Commission official, "but, on the contrary, of the world economic situation."

In fact, U.S. action on special steels has been on the cards ever since Washington and the Community came, last October, to a less-than-amicable agreement to limit imports of general steel into the U.S.

The U.S. steel industry, which prompted the eight-month dispute last year with *complaints that subsidised EEC* steel imports were taking an "unfair" market share, had tried at the last minute to include special steels in the agreement.

That was not on, but the industry was quick to file a new complaint, dealing with specific special steels—stainless strip, plate, rod, bar and alloy tool steel—under section 301 of the U.S. Trade Act, which deals with subsidised imports.
products into the U.S. before any quotas are filled.

But while the Section 301 *countervailing duties case made* by the industry, and investigated by the office of the Special U.S. Trade Representative is continuing against six specific European public sector stainless producers, *the White House* also instructed the ITC, in the middle of last November, to begin an inquiry into special steel under Section 201 of the Act, under which there is no *requirement to prove unfair* trading, simply that imports are too high. This ruling was delivered last week.

There is now a very real possibility of the U.S. imposing *blanket quotas tarrifsfi or a* combination of both, on these imports which could result in a world-wide free-for-all with producers rushing to get their

Negotiations with Washington *before May 6*—and EEC spokesmen said at the weekend no high level talks were planned—are also likely to be far more complicated than any so far. The subsidised steels case last year concerned *chiefly* the Community and chiefly producers in the subsidised state sector.

Last week's ruling, however, covers private producers as well (there are about 70 in *Community countries alone)* and is not confined to Western Europe.

Governments of exporting countries are likely to come under pressure from private steel makers, *in addition* to the normally bigger public concerns, to lobby Washington.

The sheer enormity of producing cohesive defence arguments, given the secretiveness *of privat producers and the* difficulty in defining precisely what passes for the special steel under dispute (it depends on the level of alloy content in the steel), means it is possible that *little effective defence* could be mounted before May 6.

U.S. investigators say some 200,000 tonnes of the steel covered by the ruling was imported into the country last *year. That was worth $373m,* about 22 per cent of the U.S. market.

Some products are clearly regarded as more dangerous than others. Indeed, one of the ITC Commissioners dissented from the ruling on stainless steel imports, which took just 6 per cent of the market. By contrast, aloy steel imports took *more than 40 per cent of the* market.

John Makinson looks at the problems of joint ventures in China and the way Peking plans to improve matters

High finance at the Temple of Heaven hotel

ON THE face of it, Gu and Fu are unlikely international entrepreneurs. Both must be in their 70s and last lived abroad as representatives of the Bank of China before 1949. Gu still sports a smart brown jacket acquired at Brooks Brothers of New York in the mid-1940s.

Yet both these men are senior, articulate representatives of the organisation which bears much of the responsibility for attracting foreign investment to China—the China International Trust and Investment Corporation.

Citic, which operates from the fourth floor of the Temple of Heaven Hotel in central Peking, is the only Chinese Government agency to have borrowed on a foreign securities market. It is also a principal conduit between China's central planners and foreign businessmen. Several of its senior staff were Shanghai millionaires 40 years ago and still carry the international trademarks of the wealthy—Italian shoes or Swiss watches.

Under the new, liberal economic policy, China's ability to persuade foreign investors that it is both politically stable and able to offer sufficiently attractive returns for their money is vital.

Organisations like Citic and its counterpart in Shanghai have been given this responsibility while the leadership in Peking undertakes a thorough shake-up of China's ponderous and frequently obstructive bureaucracy.

Jing Shuping, vice-president of Citic, concedes that progress on establishing joint ventures has not so far met the corporation's expectations. Up to the end of last year, 43 joint ventures had been established in China with a total investment of $200m, of which foreign partners accounted for $90m.

Citic will need to step up the pace if it is to match internal forecasts of $1bn in investment capital for the five-year plan from 1981 to 1986. Jing expects that, of this total, $300m will represent direct investment from abroad, a further $300m cash raised by Citic in loans and securities, $300m of domestic deposit funds and $100m in leasing capital.

The Citic figure represents only a small proportion of the $10bn or more which China expects to attract in foreign capital during the five-year plan. The great bulk of this sum, however, will be made up of ventures in the coal and oil exploration industries.

Initially, Citic plans to emphasise the development of intermediate technologies such as fertilisers, hard alloys, textiles, food processing and building materials. It is also anxious to develop higher technologies, such as electronics and pharmaceutical drugs.

Obstacles so far have included the absence of a proper legal framework to protect foreign joint venture partners, together with guarantees about production and manning levels. Some progress has already been made: detailed feasibility studies are now much more common and an economic contract law has been introduced.

New legislation on joint ventures should follow within the next few months. Jing expects that foreign companies may be given extended tax holidays in return for particularly attractive technology, together with a larger slice of the domestic market. Work is also under way on a new patent and corporate law.

Foreign companies in Peking accept that rapid progress is being made, particularly in the legislative field, but express some scepticism about the effectiveness of the new laws. The patent law, for example, is expected to protect production processes for pharmaceutical drugs but not the chemical compounds themselves.

Moreover, the Chinese show no sign of relaxing their insistence of the use of domestically-produced components, whenever possible, or of providing longer-term production schedules.

Whatever other steps are taken, Citic is likely to remain a very tough negotiator. Jing is adamant that the corporation will honour its contracts and will study potential projects more closely beforehand. But he also makes it abundantly clear that Citic will press for a deal which is attractive to China.

"There is an old Chinese saying," he adds, "'Be a villain first, then a gentleman.'"

Chinese handshake has its pitfalls

THE JAPANESE business presence in China outdistances by far that of any other nation. In typically Japanese fashion, companies from Tokyo and Osaka are establishing representative offices and industrial ventures from which they do not expect to make a proper return for years to come.

Having said that, however, a few of these companies are already throwing up their hands in frustration at the obstacles an headaches they encounter daily in trying to do business in China. Hiachi, for example, has negotiated with the Chinese to assemble television sets in Fujian province.

The original plan was to turn out 400,000 sets a year, had no economic contract law, using imported components. The Chinese, who at the time were reluctant to enter into binding contracts and preferred instead to proceed on the basis of handshakes and spoken agreements. The contract itself was shot through with holes.

Hitachi admits in retrospect that it was a little naive to enter almost blind into the Fujian deal. Problems began immediately. The Cinese insisted that Hitachi should use locally made components wherever possible. China has a factory with the capacity to produce 960,000 brown tubes a year and the government insisted that these were used in place of the Hitachi tube. The same went for integrated circuits, tuners and other components.

Hitachi's protestations that *the Chinese components* were of inferior quality, incompatible with the Hitachi system and produced too far away fell on deaf ears. So the Japanese company incorporated *the components* into its design and proceeded to turn out the television sets.

In negotiations, Hitachi had been provided with general guarantees that it would be able to sell its product throughout China and in the first six months of last year it assembled 150,000 sets.

The Chinese then arrived with a production quota for the year. Demand, unfortunately, was not up to expectations and Hitachi had to limit its production for the full year to *135,000 sets—15,000* less than had already been manufactured. Eventually, the figure was negotiated up to 180,000 units.

Asked about the losses being made *in Fujian*, the man from Hitachi sighs deeply and smiles politely. He attributes part of the difficulty to a failure of communication between the central planners in Peking, who negotiated the deal, and the local factory which has a better feel for the likely pattern of demand and the availability of supplies.

Moreover, he says, the Chinese can accept the idea of profit on sales but have little conception of a return on capital.

Apple plans to step up war on counterfeits

By Robert Cottrell in Hong Kong

APPLE COMPUTER, hte U.S. computer manufacturer, says it plans a sustained legal battle against Asian counterfeiters of its products.

Mr Albert Eisenstat, Apple vice-president and general counsel, said in Hong Kong that the company has brought 28 civil actions against retailers and distributors in the colony, and two actions against companies which it believes to be "relatively large counterfeiters" in Taiwan.

Apple believes Taiwan to be the main manufacturing centre, and Hong Kong the main distribution outlet.

Rank Electronics Asia, which is Apple's Hong Kong distributor, says Taiwanese companies may have produced 20,000-25,000 fake Apple computers in the past 12 months. The most popular imitation is one of the Apple Two computer, though peripherals and software are also said to be counterfeited.

Unofficial estimates suggest that fake Apple Two's—many retailing at less than half the price of the original—may outsell true Apples in Hong Kong by a ratio of five or even 15 to *one*.

Mr Eisenstat said that among legal actions so far brought in Hong Kong, injunctions had been obtained in nine cases. Five defendants have asked for hearings to be delayed, while the balance of the cases are being defended.

Apple is basing its actions on three areas of infringement — off.
patents, copyright, and passing

In Taiwan, Apple has successfully appealed against a lower court ruling made last *month which said it could* not bring actions there because it was not registered as a business in Taiwan. Mr Eisenstat said those actions will now go ahead.

He also said Apple is suing a *Los Angeles distributor of* Asian-made Apple-type products. In February, Apple secured eight interim injunctions against Singapore distributors.

Reuter reports *from Taipei:* The U.S. and Taiwan have agreed to join efforts to combat counterfeiting and provide better protection for patent owners, officials said yesterday. U.S. official will submit a report to the Reagan Administration and Congress, as well as to the International Anti-Counterfeiting Union (IAU) Congress to be held in San Francisco in May.

New Airbus boost to European competition

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

COMPETITION on European air routes will increase significantly over the next few weeks, as two major airlines, Lufthansa and Swissair, put into service the first of their new fleets of A-310 Airbuses.

These aircraft are the smaller, 200-plus seater versions of the larger A-300 Airbus which has already been seen *extensively on European routes.* The A-310 is a short-to-medium range aircraft, but a longer-range variant, the A-310-300, is also now under development for delivery from the end of 1985.

Total sales of the A-310 to date amount to 102 aircraft (in addition to sales of 248 A-300s). Lufthansa has on order 25 A-310s worth about DM 1.5bn (£619m), with an option on another 25, while Swissair has an order for ten A-310s, worth about SWFr 700m (£337m), with an option on another ten . Lufthansa is already an extensive user of the bigger A-300.

The new aircraft will bring a new standard of quality to Europe's short-hand air routes.

In addition to the comfort *afforded* by *the* A-310, these aircraft also have improved engines (General Electric for Lufthansa and Pratt and Whitney for Swissair) which will give reduced noise and improved fuel efficiency.

The direct competitor to the A-310 is the Boeing semi-wide-bodied 767, also a twin-engined airliner, but so far no European operator has taken delivery of this aircraft. Britannia of the UK has ordered a small number of 767s, but will not take delivery until next spring.

The nearest immediate "new technology" competitor is the smaller Boeing 757, a narrow-bodied twin-engined jet that *has already joined the fleet of* British Airways (which is buying 17 of them).

Two UK inclusive-tour airlines, Air Europe and Monarch, will also be using the 757 this summer on holiday flights between the UK and the Continent.

Other European airlines which have ordered the A-310, and which will be taking delivery progressively over the next year or so include Air France (5), Austrian Airlines (2), British Caledonian Airways (3), Cyprus Airways (2), KLM (10) and Martinair (3) both of the Netherlands and Sabena (Belgium) (3).

EEC policies on aid 'are a failure'

By David Tonge, Diplomatic Correspondent

EUROPEAN POLICIES aimed at helping developing countries in Africa, the Caribbean and Pacific (ACP) regions have shown a singular lack of success, according to a survey published in London yesterday.

This shows that preferential trade schemes for these countries have failed to ensure they maintained their share of EEC imports. It also finds that Stabex, the Community's scheme to protect countries against export shortfalls, has not only been inadequately funded, but "never had a full stabilising function" for countries in balance of payments need.

This survey of the workings of the 1975 and 1980 Lome agreements, which now involve 63 ACP countries comes as the EEC is preparing to renegotiate what has long been the cornerstone of its relationship with the developing world. It also comes as a number of countries, in particular Britain, are complaining at the inefficacy of EEC aid programmes and their increasing share of national aid budgets.

The survey shows that the ACP share of EEC imports fell from an average of 8 per cent in the years 1970-74 to 6.9 per cent in the five years after the first Lome agreement was signed. In 1979, petroleum accounted for 35 per cent of ACP exports to the EEC and coffee and cocoa for a further 18 per cent.

* *The EEC and the Third World: A survey 3. The Atlantic Rift. Edited by Christopher Stevens. Hodder and Stoughton in association with the Overseas Development Institute and the Institute of Development Studies. 242 pp £6.95.*

World Economic Indicators

TRADE STATISTICS

		Feb '83	Jan '83	Dec '82	Feb '82
UK £bn	Exports	4.892	4.585	5.018	4.496
	Imports	5.030	5.076	4.510	4.326
	Balance	−0.138	−0.491	+0.508	+0.170
W. Germany DMbn	Exports	33.16	32.35	38.01	34.45
	Imports	29.43	29.65	31.62	30.83
	Balance	+3.73	+2.70	+6.40	+3.62
		Jan '83	Dec '82	Nov '82	Jan '82
France FFrbn	Exports	55.8	55.4	57.6	51.6
	Imports	65.4	61.7	64.5	56.8
	Balance	−9.6	−6.1	−6.9	−5.2
USA $bn	Exports	17.393	16.347	15.852	18.584
	Imports	19.429	18.717	19.266	21.940
	Balance	−2.036	−2.370	−3.414	−3.356
Italy Lbn	Exports	8,740	7,674	9,666	7,650
	Imports	11,357	9,702	10,608	9,266
	Balance	−2,617	−2,028	−942	−1,616
		Dec '82	Nov '82	Oct '82	Dec '81
Japan Ybn	Exports	2,595	2,901	3,021	2,614
	Imports	2,549	2,838	2,859	2,647
	Balance	+46	+63	+162	−33

SHIPPING REPORT

Tanker market trade picks up

BY ANDREW FISHER

TRADE ON the tanker market picked up last week after a long period of slackness. While traders were still unsure wohether oil prices would drop further, the need to satisfy contracts overcame the desire to sit tight a little longer.

According to E.A. Gibson Shipbrokers, more tonnage was fixed out of Indonesia to Japan, the U.S. West Coast and the U.S. Gulf. Business in the Mediterranean showed an even more marked rise.

Also more lively last week was the New York market, with vessels in demand from the Caribbean, the U.S. Gulf, Ecuador and the east coast of Mexico.

In contrast to previous weeks, the Iranian section of the market was fairly quiet. But Galbraith Wrightson said several deals were understood to have been concluded "under *wraps*."

The hope was, added Galbraith, that there would be some *more open trading of Iranian* crude oil this week. One large cargo of 245,000 tons was fixed from Kharz Island at Worldscale 27 to the East, 25 to the West and 20 to the Red Sea. In the absence of large tanker cargoes generally, it regarded this as "comparatively good."

On the dry cargo side, where rates have shown modest rises in past weeks, there was some nervousness in the market as to how sustained the improvement would be.

هكذا صدر الأصل

Nervous, sweaty, exhausted. And that was just the journey from the car park.

It's true Heathrow has been a bit of an obstacle course until recently.

Much of the upheaval was created by the Underground.

A station, twin train tunnels and pedestrian subways all had to be excavated and equipped.

The new bus station also caused a few problems.

So did the covered walkways we erected between the Terminals and short term car parks.

Sadly, all was not sweetness and light inside the terminal buildings themselves.

We gave all three major facelifts, reorganising Terminal Two completely.

Try as we might we couldn't help but cause travellers some inconvenience.

We would have done the work outside normal working hours, only Heathrow normally works 24 hours a day. Still, now the dust has settled the improvements are there for all to see and enjoy.

Probably the most impressive is Eurolounge.

A new Satellite Terminal we have built to ease congestion in Terminals One and Two.

It can accommodate up to 8 widebodied aircraft and up to 1200 widebodied passengers an hour.

It will help us keep pace with the growth in air traffic until Terminal Four is completed.

(Relax, the work isn't affecting the central area of the Airport.)

Whether you're a once-a-year flyer or a regular air passenger, take a good look round next time you fly from Heathrow.

You'll find it isn't the airport it used to be.

British Airports **Heathrow**

The British Airports Authority, a profitable public enterprise, owns and manages Heathrow, Gatwick, Stansted, Glasgow, Edinburgh, Prestwick and Aberdeen airports.

UK NEWS

IMPORT LIMIT REBOUNDS ON BRITAIN

EEC deal may raise Japanese VCR prices

BY GUY DE JONQUIERES IN LONDON

RETAIL PRICES of Japanese video cassette recorders (VCRs) sold in Britain are likely to rise by £100 or more during the next three months, according to manufacturers and distributors of the machines. Some rises in monthly rental charges are also expected later in the year.

The higher prices are blamed chiefly on the impact of the new EEC "floor price" for Japanese machines and on the recent sharp fall in the value of sterling against the yen.

Some in the industry also believe that distributors may seize the opportunity to restore profit margins, which have been eroded by severe price competition in recent months.

The EEC arrangements limit sales of Japanese VCRs in the EEC to 4.55m this year, including 600,000 assembled in Europe from imported kits. In addition, the two companies making European VCRs – Philips of the Netherlands and West Germany's Grundig – have been guaranteed sales of up to 1.2m machines.

Japanese manufacturers are expected to decide early this week how to share out the 4.55m total among themselves. How shipments will be distributed between different EEC countries is still not known.

Sony's UK subsidiary said yesterday that it expected the prices of its three current models to rise by about £100 by June. The manufacturer's recommended price (MRP) of its cheapest model, the C-6, is currently £480, but it is widely on sale at about £350.

Thorn EMI, the largest UK supplier of VCRs, thinks the price increases could be even bigger and could lead more consumers to rent their machines, rather than buy them. At present, about 60 per cent of the almost 4m machines in use in the UK, are rented.

Thorn EMI supplies machines designed by Victor Company of Japan (JVC). About 70 per cent of its current deliveries are assembled at plants in West Germany and Britain, but because imported Japanese components still account for almost 80 per cent of the machines' value, they differ little in price from VCRs supplied directly from Japan.

Thorn EMI says, however, that it plans to increase the local content of the machines rapidly and expects the effects to start working through to prices next year.

Granada Television Rentals says it may have to increase its monthly rental charges by between £1.50 and £3 this summer but has taken no decisions yet. Its current charges ranges from about £15 to £19 per month.

Mr Bill Andrews, the company's managing director, who is also chairman of the National Television Rental Association, said VCR rental charges had fallen generally during the past year. He did not expect them to rise above their previous peak of about £22 a month.

Philips said last week it did not plan to increase its prices, but Grundig's UK subsidiary, which is phasing out its current model, intends to replace it with a new VCR soon at a "substantially" higher price.

Britain is by far the largest EEC market for VCRs. It absorbed more than 2m machines last year, and sales and rentals in January are said to have been well above the level in the corresponding month last year.

Lloyd's syndicate makes heavy loss

BY JOHN MOORE, CITY CORRESPONDENT

LLOYD'S of London underwriting members who belong to one of the insurance market's 431 insurance syndicates have been told that they face substantial losses. The losses on the syndicate – which is formed of 237 members of Lloyd's – could rise to at least £1.8m.

The syndicate – number 895 – specialises in insuring ships and other business. Among its members, who do not work at Lloyd's, are the tennis personalities Virginia Wade and Mark Cox.

The syndicate has ceased underwriting after a breach in the limits which are set down by Lloyd's and which govern the amount of business the syndicate can accept.

Those members who are underwriting £20,000 of business on the syndicate stand to lose £15,000 from their involvement. But since all members of Lloyd's belong to a range of syndicates – the units into which all members of the market are grouped – they will be able to offset the losses on syndicate 895 with profits from others.

Syndicate 895 is under the management of Spicer & White Underwriting Agencies.

One underwriting agent has warned his members of syndicate 895 that there "is not much cause for optimism."

The losses faced by the syndicate are by no means record-breaking. In the late 1970s, the underwriting syndicate once headed by Mr Frederick Sasse – comprised of about 110 members – faced losses of £21m, with some individual members facing losses of more than £200,000.

Then as in the case of syndicate 895, the losses were made worse because the syndicate breached its premium limits through over trading.

Fair play manoeuvre for TV football

By David Churchill, Consumer Affairs Correspondent

THE Office of Fair Trading (OFT) is poised to help keep regular League football matches being televised on both BBC and ITV.

The move is almost an "action replay" of the OFT's intervention four years ago which prevented League football from being shown exclusively on ITV.

This time the OFT's concern follows the possible £8m deal between the League and a company called Telejector for highlights of matches to be shown exclusively on videos in pubs rather than on television.

The OFT is considering taking the Football League to court over its rules and regulations, which are a restrictive trade practice under the terms of the 1976 Restrictive Trade Practices Act. The League's rules have already been formally placed on the public register of restrictive trade agreements.

The OFT has confirmed that its officials are looking closely at the League's rules in much the same way as it has been considering the Stock Exchange's rule book in the past few years.

Both the League and the Stock Exchange may be asked to justify their rule books before the Restrictive Practices Court. This court determines whether such rule books are in the public interest.

The OFT is particularly concerned that the League's rules not only give it the right to negotiate television deals which are binding on all 92 League clubs, but they also impose restrictions on the clubs' activities.

First plastic food can goes on test market

BY MAURICE SAMUELSON

THE WORLD's first plastic food can has gone on sale in Britain as part of a joint market test by the U.S.-owned Campbell's Soups, and Metal Box, the UK's leading packaging company.

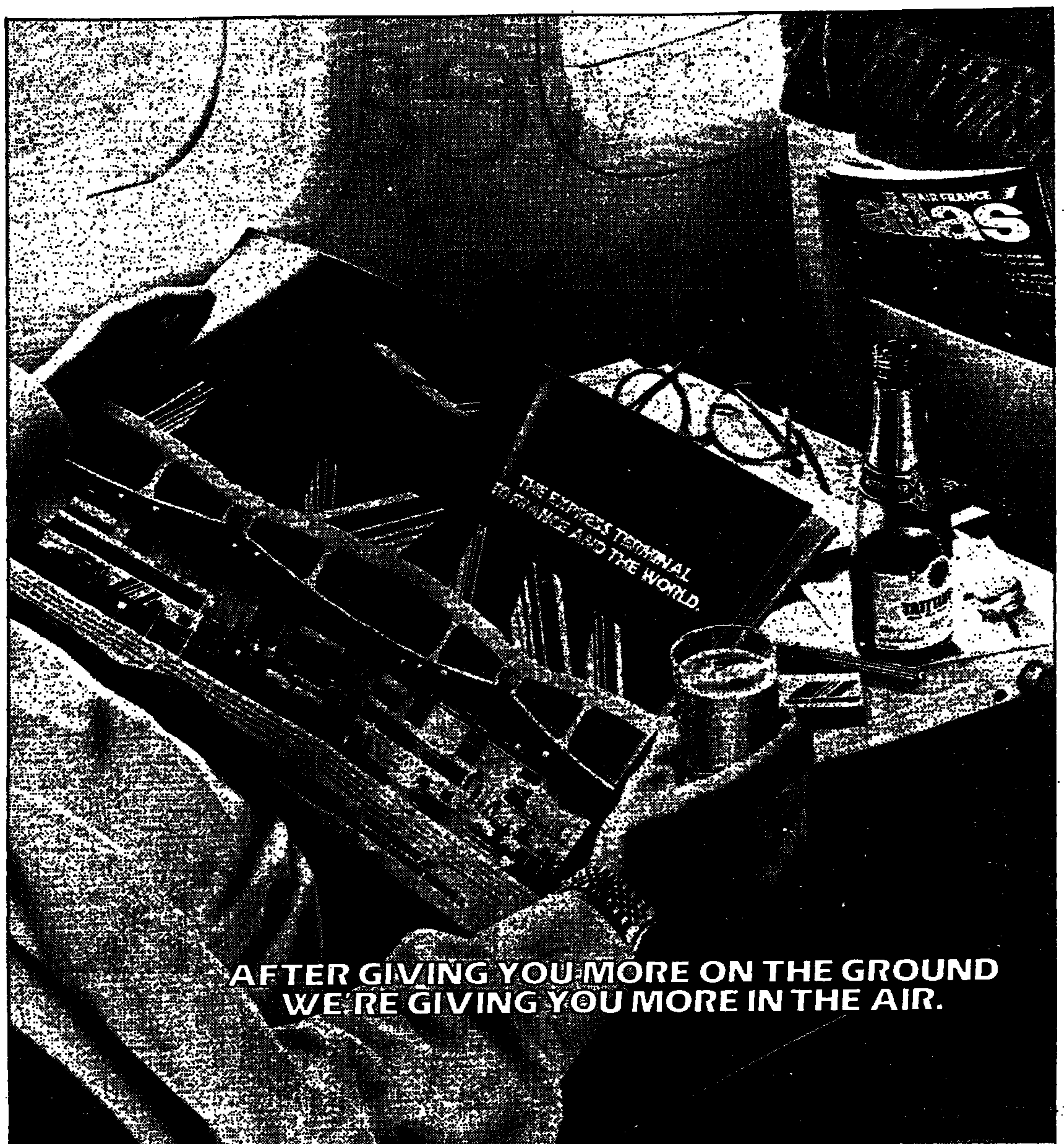
Chicken in cream sauce is being sold in a flat 16oz carton made of Lamipac, a plastic laminate which Metal Box has been developing for seven years.

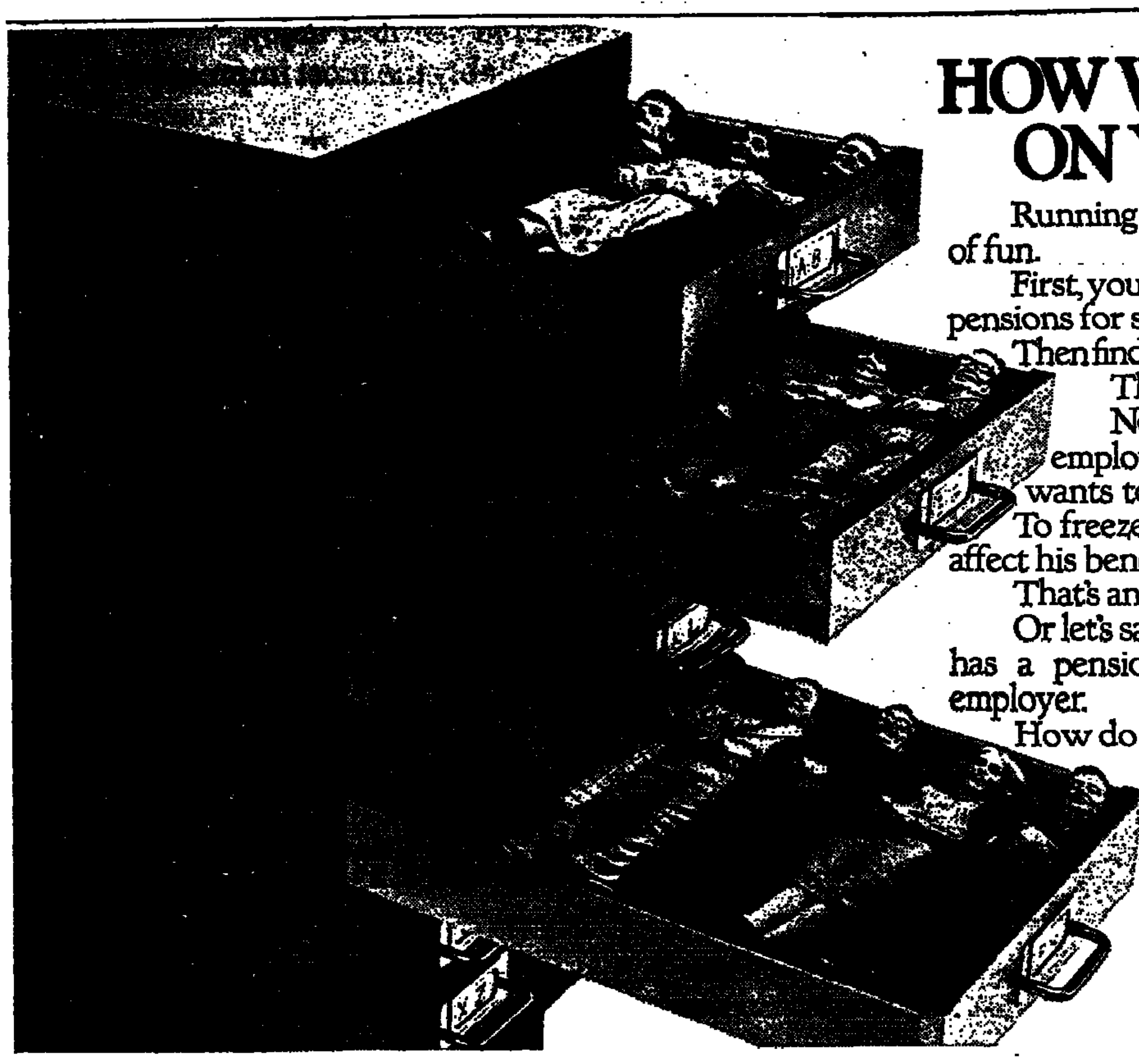
It has a shelf life comparable with that of a tinplate can and its contents are served in the same way. If the foil seal is completely removed, the carton can also be microwaved.

Metal Box has spent about £1m on Lamipac to try to counter the long-term decline in canned food consumption. Because of Lamipac's heat resistance, the packed food can be processed in factories at extremely high temperatures, in the same way as food in metal cans and glass jars.

The container can be made in any shape and is being developed by Metal Box for a wide range of uses.

The material is a sandwich of PVDC (polyvinylidene chloride) between outer layers of PP (polypropylene).





BOOST FOR ELECTRONICS

Smiths to link with Lucas to make vehicle components

BY ARTHUR SMITH, MIDLANDS CORRESPONDENT

DETAILS of a joint venture by Smiths Industries and Lucas, aimed at giving the troubled UK vehicles components sector a lead in the fast-growth world markets for car electronics, are expected to be announced this week.

Talks between the electricial division of Lucas and Smith are thought to have made good progress. The aim is to offer a package of electronic systems to control fuel consumption, exhaust emission and safety.

The two companies by pooling resources could create the volume and achieve the economies necessary to meet international competion, particularly from Japan and companies such as Bosch, Ford and General Motors.

The vehicle for the attack on world markets could be a new joint company confined to the electronics sector and with Lucas taking a majority shareholding.

The logic of such a tie-up is apparent. Lucas is dominant in supplying ignition equipment such as starter motors and alternators, with Smiths specialising in instrument systems and display panels.

Together, the UK's two leading companies in the market could share heavy research and development costs.

The Department of Industry, while clinging to its non-interventionist role, could nevertheless be important in providing finance for the venture either under new technology aid schemes or the Industry Act.

The UK motor component sector has been hard hit by the decline of the UK assemblers, but Lucas and Smiths clearly see the potential in the fast growth projected for the application of electronics to the world automotive industry.

Engineering sales rise but orders decline

FINANCIAL TIMES REPORTER

COMBINED UK engineering industries recorded slightly higher sales in 1982 than the previous year, according to the Department of Industry. The figures show, however, that new orders were considerably scarcer. During 1982, the level of total orders on hand declined by 7 per cent, with exports performing worst.

Total sales followed a slowly rising trend for most of the year, with a noticeable improvement in the seasonally-adjusted figures in the third quarter. A small reverse was registered towards the end of the year.

New orders were lower than sales for much of the time and there was virtually continuous decline in order books after May.

Export sales in 1982 were only slightly below their 1981 level. But there was a marked decrease in orders – particularly during the second half. Export order books shrank by more than 10 per cent during 1982.

Although new export orders in the fourth quarter were about 10 per cent higher than the previous three months, this did not lead to an increase in orders on hand.

The domestic market fared somewhat better than exports during the year, but orders continued to be weaker than sales.

The metalworking machine tool industry fared considerably worse than the broad engineering industry. Total sales of machine tools fell by 10 per cent to less than half their 1975 level. On average, new orders were 25 per cent lower than in 1981.

Fear over key skill shortages

By Alan Pike.

KEY SHORTAGES of skilled manpower could quickly reappear with an economic upturn, a report by the Institute of Manpower Studies suggests today.

The report believes that skill shortages – which have been evident in every economic upturn of the last 30 years – remain a potential problem, even though it concludes that true shortages during the last upturn were less extensive than supposed.

The institute's work is based on a series of case studies in engineering companies in the North-West carried out with the support of the TUC, the Confederation of British Industry and the Engineering Industry Training Board, and funded by the Manpower Services Commission.

COMPANY NOTICES

AZIENDA AUTONOMA DELLE

FERROVIE DELLO STATO

U.S. $225,000,000
Floating Rate Notes 1988
Convertible until March 1988 into 11¼ per cent. Bonds 1993

For the six month period
28th March, 1983 to 28th September, 1983

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest has been fixed at 10 per cent per annum, and that the interest payable on the relevant interest payment date, 28th September, 1983, against Coupon No.5 will be U.S.$255.56.

S.G. Warburg & Co. Ltd.
Agent Bank

Norsk Hydro a.s
£30,000,000

12 per cent Notes 1990 — Issue Price 99 per cent

Paid as to £300 per Note and payable as to £690 per Note on 6th April, 1983

NOTICE is hereby given to persons entitled to partly-paid Notes that payment of the final instalment of £690 per Note is due to be made to Norsk Hydro a.s on 6th April, 1983 ("the due date") in pounds sterling in immediately available funds.

Accordingly:—

(1) Any such person so entitled whose holding of partly-paid Notes is shown in the records of Morgan Guaranty Trust Company of New York as operator of the Euro-clear System ("Euro-clear") must authorise Euro-clear not later than its opening of business on 5th April, 1983 to debit his account with Euro-clear on that day with the amount due in respect of his holding of partly-paid Notes as shown in Euro-clear's books at its close of business on 4th April, 1983 at the rate of £690 per Note; and

(2) any such person so entitled whose holding of partly-paid Notes is shown in the records of CEDEL S.A. ("CEDEL") must authorise CEDEL, not later than its opening of business on 5th April, 1983, to debit his account with CEDEL on that day with the amount due in respect of his holding of partly-paid Notes as shown in CEDEL's books at its close of business on 4th April, 1983, at the rate of £690 per Note.

Norsk Hydro a.s is entitled to accept payment of the final instalment of any Note at any time after the due date but no payment made after the due date will be accepted unless accompanied by a further payment representing interest on the amount of such final instalment accrued at the rate of 15 per cent per annum. Norsk Hydro a.s may elect at any time after 20th April, 1983 (without giving any further notice to that effect) to forfeit all or any Notes in respect of which the final instalment (together with interest on late payment, if any) has not been duly paid whereupon Norsk Hydro a.s shall be entitled to retain for its own use and benefit the first instalment of the Issue Price of any Note for which the final instalment of the Issue Price has not been received and shall be *discharged from any obligation to repay such first instalment or to pay interest thereon for any period.*

Neither Euro-clear nor CEDEL will clear any transactions in the Notes for settlement on or after 6th April, 1983 unless such transactions are in fully paid Notes.

NORSK HYDRO a.s

NACIONAL FINANCIERA, S.A.

US$125,000,000
Floating Rate Notes due 1988
(Extendible at the Noteholder's Option to 1991)

Notice is hereby given that the rate of interest for the period from 28th March, 1983 to 28th September, 1983 has been fixed at 10 per cent per annum.

On 28th September, 1983 interest of US$51.11 per US$1,000 nominal amount of the Notes and US$511.11 per US$10,000 nominal amount of the Notes will be due against interest Coupon No. 5.

Swiss Bank Corporation
Agent Bank

URQUIJO INTERNATIONAL N.V.
U.S.$30,000,000
Floating Rate Notes due 1986

For the six months, March 23, 1983 to September 22, 1983 the Notes will carry an interest rate of 10% per annum.

The interest due September 23, 1983 against coupon No. 9 will be U.S.$51.11 and has been computed on the actual number of days elapsed (184) divided by 360.

The Principal Paying Agent
SOCIETE GENERALE ALSACIENNE DE BANQUE
15, Avenue Emile Reuter,
Luxembourg.

THORN EMI plc
(CDRs)

The undersigned announces that as from 5th April 1983 at Kas-Associatie N.V., Spuistraat 172, Amsterdam, div. cp. no. 11 of the CDRs Thorn EMI plc each repr. 50 shares will be payable with Dfls. 8.03 (re interim dividend for the year ending 31st March 1983) 4.05p per share. Tax credit £0.8678 = Dfls. 3.47 per CDR. Non-residents of the United Kingdom can only claim this tax credit when the relevant tax treaty meets this facility.

AMSTERDAM DEPOSITARY COMPANY N.V.
Amsterdam,
21st March 1983.

INTERNATIONAL DEPOSITARY RECEIPTS REPRESENTING SHARES PAR VALUE $2.50 COMMON STOCK J.P. MORGAN & CO. INCORPORATED

A cash distribution of $0.925 per Depositary share will be payable on and after the 22nd April 1983, upon presentation of Coupon No. 50 at:

Morgan Guaranty Trust Company of New York, 30 West Broadway (Corporate Trust Department, New York)
35 Avenue Des Arts, Brussels
Morgan House, 1 Angel Court, London
82 Frankrijklei, Antwerp

at the designated rate less applicable taxes.

This distribution is in respect of the regular quarterly dividend payable on the the common shares P.V. $2.50 J. P. Morgan & Company Incorporated on the 15th April 1983.

PERSONAL

DANISH BUILDING SYSTEM A/S

IS A GROUP OF SPECIALISED COMPANIES WITH LONG-TERM EXPERIENCE IN TIMBER FRAMED HOUSE BUILDING

The group has formed an export company in order to develop an entry into the UK market with the co-operation of David Love Associates Limited, PO Box 3, Hamble, Southampton. Telephone: 0703 (Southampton) 455619. After market research, designs have been developed for the UK market which incorporate the high quality and careful detailing that is associated with Scandinavia.

The managing director of Danish Building System A/S, Mr Knud *Lolokkegaard will be in London at the Europa Hotel, Grosvenor Square,* London, W1 where an exhibition presenting major elements showing examples of construction will be on display, detailing doors, windows, kitchen units, bathroom units, heating and electrical systems and insulation systems. Both Mr David Love and Mr Knud Lolokkegaard will be at the exhibition and would welcome visits from members of the construction industry and professions who have an interest in housing.

THE EXHIBITION WILL BE OPEN MONDAY & TUESDAY
28th & 29th MARCH FROM 10.00 AM TO 7.00 PM

FINANCIAL TIMES

PUBLISHED IN LONDON & FRANKFURT

Head Office: The Financial Times Limited, Bracken House, 10 Cannon Street, London EC4P 4BY. Telex: 8954871. Telex: (Advertising) 885033. Telegrams: Finantimo, London. Telephone: 01-248 8000. Frankfurt Office: The Financial Times (Europe) Ltd., Guiolettstr. 54, D-6000 Frankfurt-am-Main 1, West Germany. Telex: 416193. Telephone: 7598-0. Editorial: Guiolettstr. 54. Telex: 416052. Telephone: 7598-157.

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UK NEWS

Ford anger over rumours against Sierra

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

FORD is considering a formal protest to the Society of Motor Manufacturers and Traders over a whispering campaign against its Sierra model launched last autumn.

Ford says the most malicious lie is that the Sierra is to be "reskinned" – that is, having its body redesigned because its shape has not appealed to customers.

Despite Ford's repeated denials and the fact that it is simply not believable – the cost would be huge – the rumour continues to be repeated, even by executives in rival companies. The rumour could be particularly damaging if potential customers decided to wait for the "next" Sierra.

Jealousy is said to be behind the campaign. Ford has been Britain's market leader for a long time, having overtaken BL in 1976.

"There are those who would love dearly to see Ford slip on a Sierra-shaped banana skin and fall flat on its corporate face," acknowledged one observer.

Ford can produce statistics showing Sierra is doing its job – in Britain that means filling the large gap left by Cortina, for years the UK's best-selling car.

Sierra displaced the Vauxhall Cavalier from third place in the top ten best-selling cars list at the beginning of 1983. It raced into the top ten much faster than the Cavalier, its hottest rival.

Sierra maintained its third place in the first 20 days of March and has captured more than 8 per cent of monthly sales even though some variants have been introduced only in the past few weeks.

The anti-Sierra campaign has even reached the European Continent but Ford points out that in West Germany in February the car took a 4.8 per cent market share while the old Taunus, the German version of Cortina, was scarcely achieving 2 per cent.

Ford reckons Sierra has helped increase its Western European market share from around 12 to nearly 14 per cent this year.

There are signs that Sierra is far from being a runaway success. The initial order intake after the launch was sluggish enough to worry some dealers.

Last month Ford gave dealers an extra £500 bonus to put "loaners" – demonstration models – on the road in preparation for the current "try a Ford Sierra for a day" campaign.

This campaign was developed after Ford was told by dealers: "It's a driver's car. You've got to get the punter behind the wheel to appreciate how good it is."

Loaner bonuses were limited to 10 for every main dealer and three for every retail dealer.

To give dealers more room for bargaining, Ford this month is giving them an extra £350 bonus on every Sierra sold above an agreed target.

Sierras are also being discounted, some quite heavily. A dealer in Skipton, Yorkshire, is offering Sierras from £3,795 against the lowest list price of £4,974.

Ford has also allowed output at Dagenham to level off at 850 a day against the nominal capacity on the Sierra line of 900 a day.

Mr Sam Toy, chairman of Ford of Britain, admits the launch did not go well because the company had only 6,000 in stock against the 10,000 hoped for.

Now GL, estate and five-speed-gearbox versions are all available, to be followed shortly by the sporty XR4i.

Dagenham's output has been levelled out to match demand, said Mr Toy. It represents about 225,000 a year, enough to give Sierra a 13 per cent share of a 1.7m UK new car market without imports from Genk, Belgium, where Sierra is also made.

Mr Toy said Ford was short of Fiestas, so production of that car would be boosted at Dagenham from 200 to 360, and possibly 400, a day, thus increasing total unit output from the plant to a level not previously seen.

Dagenham's nominal unit capacity is about 1,100 a day depending on the mix of cars produced.

The bonuses, he said, reflected Ford's determination to maintain its 30 per cent market share this year in spite of intense competition from not only the Cavalier but also BL's Maestro and other new cars to be launched.

Promotion launched for Datsun

By Our Motor Industry Correspondent

DATSUN car dealers in Britain have been forced to launch for the first time in many years a promotion campaign for their full model range.

Competition has become intense and rival companies, often with new models such as the Maestro or the Sierra, have been promoting heavily.

"Showroom traffic is not as high as it should be," said one Datsun executive. But it was stressed the campaign would be limited to the Easter period and that not all dealers were taking part.

However, the majority of Datsun dealers will be promoting "on the road" prices – which include such items as delivery charges and the road fund licence – for the next two weeks.

In the first two months of this year Datsun's market share fell from 5.63 to 3.7 per cent. For the first 20 days of March its share was 4.5 percent, compared with just over 6 per cent for the full month in 1982.

The company insists this has been caused by shortages of cars. Datsun started the year with only 8,000 cars in the network, but now has about 15,400.

BL boosts output

By Andrew Fisher

BL, the state-owned car group, intends to increase output of its Metro and Mini ranges as a result of sharp increases in demand. The extra production will add at least 100 jobs to the workforce.

The Mini, first produced in 1959, has had a new lease of life since BL introduced the up-market Mayfair model. It costs about £3,300 compared with £2,999 for the basic City model.

BL's Metro, launched in 1981, is now the UK's biggest selling car, with 11 per cent of the market. In the next month, weekly Mini production will rise from 1,100 cars to 1,400 and that of the Metro from 4,000 to 4,200.

BL cut its net loss last year from nearly £500m to less than £300m. Since January, about 1,400 new jobs have been created at its Austin-Rover division.

MINORCO

HIGHLIGHTS FROM THE INTERIM REPORT DECEMBER 31, 1982

Minerals and Resources Corporation Limited (Incorporated in Bermuda)

Summarised consolidated statement of earnings

US.$ thousands except per share amounts. Unaudited

	Six months ended December 31 1982	Six months ended December 31 1981	Year ended June 30 1982
Earnings from operations	30,199	16,336	46,667
Share of undistributed earnings of investments accounted for by the equity method	(1,917)	48,280	89,962
Minority interest in earnings of subsidiary companies	(619)	(677)	(1,314)
Earnings before extraordinary items	27,663	63,939	135,315
Extraordinary items	(40,894)	(765)	(7,111)
Net earnings (loss)	(13,231)	63,174	128,204
Earnings (loss) per share:			
From operations	$0.19	$0.10	$0.29
Before extraordinary items	0.17	0.40	0.84
Net earnings	(0.08)	0.40	0.80
Dividends per share	$0.06	$0.06	$0.22
Weighted average number of shares outstanding	162,920,000	159,321,000	161,108,000

Commentary on results

The 85% increase in earnings from operations for the half-year to December 31, 1982 compared with the half-year to December 31, 1981 was mainly due to the fact that dividends totalling US$11.3 million received in the half-year to December 31, 1981 from Minorco's investments in Consolidated Gold Fields PLC and Charter Consolidated P.L.C. were not treated as income since those dividends were paid out of income earned prior to February 1981, the date of acquisition of those investments. In addition there was a significant increase in interest and other income combined with a reduction in interest expense and prospecting expenditure.

The substantial decline in the share of undistributed earnings of investments accounted for by the equity method arises from lower earnings in each of the companies in which Minorco is invested, in particular those companies with base metal mining operations. Because of the method of equity accounting many of such earnings are in fact those for the first half of calendar 1982.

Consolidated Gold Fields PLC in which Minorco holds a 29% interest has made a provision in its half-year results to December 31, 1982 of £87 million relating to the business of a United States subsidiary principally involved in the manufacture of oil drill rigs and is intended to cover fully inventory and other anticipated losses from November 1982 onwards. Minorco's equity share of this extraordinary loss amounted to US$40.7 million.

Outlook and interim dividend

The Board of Directors has declared an unchanged interim dividend of 6 US cents per share in respect of the year to June 30, 1983. Taking into account dividends already declared by certain major investments it is presently anticipated that Minorco's earnings from operations for the full financial year will approximate those of the previous year and in the absence of unforeseen circumstances the Board is therefore confident that the final dividend in respect of the full financial year will be maintained at 16 US cents per share. A substantial proportion of Minorco's earnings in the second half of the current financial year will be derived from earnings already reported by certain investments in the second half of the calendar year 1982; given that these results reflect notable improvements in certain cases compared to the first half-year, it is anticipated that Minorco's earnings before extraordinary items for the second half of its financial year will reflect a material improvement over those reported for the first half-year.

The interim dividend of 6 US cents per share is payable to shareholders registered in the books of Minorco at the close of business on April 8, 1983 and to persons presenting coupon no. 95 detached from share warrants to bearer. Dividend warrants will be posted to registered shareholders on May 16, 1983.

Restructuring of investments

Minorco and Hudson Bay Mining and Smelting Co., Limited (HBM&S) announced on March 4, 1983 proposals to pool the joint investments of Minorco and HBM&S in a listed United States company, Plateau Holdings Inc. (Plateau). The restructuring will result in HBM&S, which will continue to hold the present Canadian operations, becoming a wholly owned subsidiary of Plateau. While Minorco will own about 60% of the equity of Plateau, Minorco has agreed to restrict its voting rights to below 50% and to elect a minority of the Board and Plateau will, therefore, not be a subsidiary. The reorganisation is subject to definitive agreements being negotiated between HBM&S and Minorco and is conditional upon HBM&S shareholders' and regulatory approvals. After completion of the reorganisation it is proposed that additional public equity offerings will be made by the Plateau group subject to market conditions at the time. Minorco has agreed to participate to the extent of US$50 million which can be financed out of current cash resources and presently available loan facilities.

Interim report

The interim report for the halfyear to December 31, 1982 will be posted to shareholders on March 31, 1983.

Pembroke, Bermuda

March 25, 1983

THE BIG DILEMMA AT SEA

Cutting costs on the trade ships

BY BRIAN GROOM, LABOUR STAFF

SHIPOWNERS are intensifying their attack on shipboard and shore-based employment costs on an increasingly broad front. This is a key element in their attempt to pull out of an eight-year world slump which has cut Britain's merchant fleet from 50m tons in 1975 to 25m this year.

It presents some unpalatable choices for unions, especially the National Union of Seamen (NUS). The demand for smaller crews at a time of high unemployment and record redundancies among seafarers is a sensitive issue.

The continued attempts to cut crew costs mean that seafarers will feel the impact of the industry's problems for a long time to come, even if trading conditions start to improve this year.

Trade Minister Mr Iain Sproat said while refusing state aid last week that the merchant fleet's decline could be halted only if management dealt with the problem of UK crew manning levels, which in many cases were 25 per cent higher than those of European competitors.

They can account for as little as 15 per cent of operating costs on a modern, high-technology vessel like a liquefied natural gas carrier, or as much as 65 per cent on a passenger ship or a ferry.

Mr Bill Menzies-Wilson, president of the International Shipping Federation and chairman of Ocean Transport and Trading, has said changes in the ways of manning ships were urgent.

Partly because the UK was a relatively low manning-cost country at the start of the recession, the need for change hit UK companies late. Competitors in other Western nations had been adjusting for 10 years or more.

Productivity improvements and manning cuts are not new. The size of crews has fallen over the years from 50 to between 18 and 24. It is the shipowners' demands which have grown more urgent.

Mr Menzies-Wilson identified four areas in which further change might come.

- Technological change: In the past 10 years this has ranged from electronic aids in all departments to the use of modern paints and plastics, automated mooring equipment and labour-saving devices in the galley.
- Shipboard organisation: So far this had involved more flexibility among ratings, but more was needed among officers, and there could be blurring of demarcations between officers and ratings – in some countries senior ratings were being trained to take on watchkeeping officers' tasks.
- Management change: Sea-going staff, particularly the master and senior officers, should take on more commercial management.
- Social change: The segregation which gave officers and ratings separate bars, messes and recreational arrangements was a barrier to cost-effectiveness and was divisive, but resistance among officers remained deep-rooted.

The Merchant Navy and Airline Officers' Association, however, argued that changes in the past two years had greatly increased the officers' workload.

The union said it would consider any serious proposals for lower manning on new vessels. It had accepted manning reductions at Blue Star, Jebsens, BP, Mobil, British & Commonwealth, Canadian Pacific, Esso, Cunard and other companies.

The NUS is more coy about manning cuts, admitting to few examples beyond Sealink. It insists that crew cuts are resisted, and changes are accepted only where there is retraining and sometimes extra pay for those who remain.

Some shipping experts believe cuts are more widespread than this, but the NUS clearly has a problem.

Faced with a Government which will not support the industry, and high unemployment which weakens the union's bargaining strength, it sometimes has to consider concessions to prevent a company going out of business or transferring to a foreign flag.

Investment campaign for Wales

By Robin Reeves

AN ORGANISATION intended to attract more inward investment to Wales is to be launched this week.

To be known as Winvest, the new body will bring together the overseas promotional and marketing activities carried out for the past 25 years by the Development Corporation for Wales, and the inward investment responsibilities of the Welsh Office Industry Department and the Welsh Development Agency.

Wales has nearly 200 overseas-owned companies, which employ about 55,000 workers. They include over 100 subsidiaries of U.S. companies and eight Japanese subsidiaries – the largest concentration of Japanese manufacturing investment in the UK. But unemployment is over 17 per cent and the Welsh Office wants to sharpen the country's competitive edge in the battle to attract overseas companies.

BUILDING AND CIVIL ENGINEERING

Builders get VAT changes postponed

THE construction industry may have won another important concession from the Treasury, *following its budget success in* getting stock relief extended to "trade in" houses.

The bonus arising from the budget measure could, according to the industry, be wiped out by another government-imposed change in VAT regulations, but it appears that strong representations to get the proposals scrapped might now pay off.

"Trade in" transactions have proved to be a major marketing aid for the private housebuilding industry, particularly in the past three years, during which it has managed to raise starts by 60 per cent.

The Chancellor's decision to permit houses to be included in companies' stock relief calculations followed heavy lobbying from the builders and his announcement was seen as a significant victory for the industry. It should be worth about £5m a year to the housebuilders.

Now, however, the Joint Taxation Committee of four building industry representative organisations has written to Sir Geoffrey, *pointing out that the* benefits of the change are in danger of being nullified by a proposed VAT change announced on the day before the budget.

Under the complex "partial exemption" rules applicable to VAT payments, Customs and *Excise proposed to introduce*—from April 1 a change to existing provisions which, the industry says, will hit precisely those innovative housebuilders whom the Chancellor was seeking to encourage.

Now, however, the Treasury has announced that, in the light of industry representations, it has asked Customs and Excise *to withhold the new provisions,* so that further consultations can take place.

VAT registered companies pay VAT on final sales, known as output payments, and also reclaim VAT on goods and services bought in — input reclaims. If a company has within its final sales a significant proportion of VAT-exempt goods, then Customs and Excise has the right to exclude a proportion of input reclaims to compensate for the non-VAT element of its business.

But there is a "de minimis" provision in the "partial exemption" rules which ensures this clawback on VAT input reclaims is not levied on companies with a small proportion of VAT-exempt sales.

At present, the rules state that if the VAT-exempt propor*tion is less than 5 per cent of* final sales, the company concerned qualifies for full VAT input reclaim and does not suffer any clawback.

Customs and Excise were proposing that, to qualitv for full reclaim and to avoid any *clawback*, a company must meet the 5 per cent requirement and that total sales must be under £32.00 a month. That amounts to £384.000 a year, or 5 per cent of £7.68m.

As a result, a companv with a turnover of £10m, and with just under 5 per cent of its present final sales involving VAT-exempt "part exchange" dwellings, the new £32.000 a month condition would make it liable for clawback of VAT input reclaims.

MICHAEL CASSELL

Earth movers put Volvo into profit

Andrew Taylor reports from Sweden

VOLVO BM, in a bruised and battered construction equipment manufacturing sector, is reaping the benefits of a major product rationalisation started by the Swedish company in the late 1970s.

A strategic withdrawal from agricultural and forestry equipment manufacturing to concentrate production on a select family of earth loading, moving and excavating equipment, has helped turn the company from heavy losses back into profit.

Last year Volvo BM, the wholly owned construction equipment subsidiary of the Volvo cars, trucks, buses and energy group, is thought to have increased pre-tax profits slightly above the level of SKr 75m (£6.8m) achieved in 1981.

Group results for 1982 are due to be published shortly and a standstill or even a slight fall in construction equipment profits would represent an achievement in a year when even mighty Caterpillar, the world's largest manufacturer of construction machinery, announced its first loss for more than half a century.

Mr Eric Johanson, president and chief executive of Volvo BM claims: "With the exception of one Japanese company (Komatsu) we are the only major manufacturer which has not delayed any investment or product development planned in the past four or five years."

In 1981, the last year for which results are available, sales of Volvo BM (excluding associate companies) approached SKr 1.9bn (£170m). Construction equipment, largely through sales of wheel-loaders, dump-trucks and excavator loaders, generated just over SKr 1.4bn (£124m).

Volvo BM sales, in fact, slipped by around 6 per cent during 1981 while earnings before allocations and excluding associates fell from SKr 100m in 1980 to SKr 75m. *Including associates, pre-tax* earnings slipped from SKr 118m to SKr 57m.

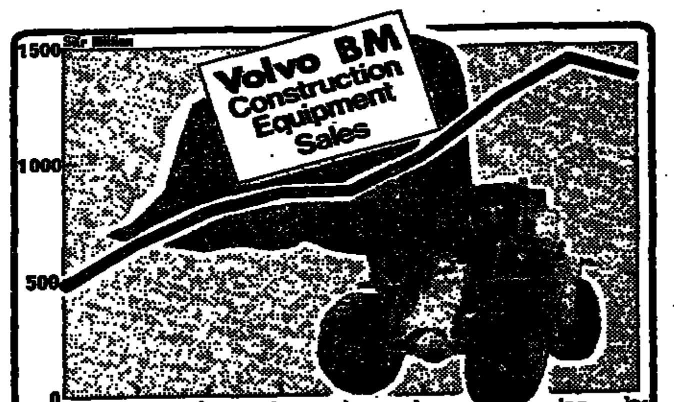
Nonetheless the company's performance — despite the apparent setbacks — may be regarded as creditable, given the immense problems Volvo faced just a few years earlier and the current difficulties being faced by some of the company's major competitors like Caterpillar, International Harvester and Poclain.

In 1978, Volvo BM was confronted with stagnating sales and mounting losses. From pre-tax profits of SKr 18m on sales of SKr 1.63bn in 1976 the company, two years later, had slumped to a pre-tax loss of SKr 113m on sales of SKr 1.58bn.

A declining home market for agricultural equipment—new tractor registrations in Sweden fell from 14,816 in 1976 to 7,700 in 1979—and a limited international market for Nordic-style agricultural and forestry equipment convinced Volvo BM that it would do better to concentrate its resources elsewhere.

The company's recovery plan, announced in 1979, set out to reduce agricultural and forestry activities—together with some other products—from around 46 per cent of sales in 1977 to around 10 per cent by 1984.

The company remains on schedule to meet this target. A series of complex deals has taken place. As a result, assembly of forestry products



has been transferred to a Finnish company, Valmet Ab; production of combine harvesters has also been halted while tractor manufacture has also been transferred to Valmer with Volvo BM continuing to supply tractor components.

Since 1960, sales of construction equipment have risen from 6 per cent of turnover to 73 per cent. Sales of agricultural equipment have fallen from 79 per cent of turnover to 24 per cent.

At the same time the group has been concentrating its construction equipment manufacturing activities on products best suited for the company's major markets in Western Europe. For example, says Volvo, the UK is the largest European market for dump trucks.

"Our researches showed that for certain categories of earth moving, excavating and loading equipment Europe accounted for around a third of the world market. Instead of dissipating our energies and valuable investment and technical resources across a wide range of products, we decided to concentrate largely on those earthwork product areas where we believed there was the best prospect for growth," says Lennart Soederberg, executive vice-president.

By concentrating on a *select* family of products the company says that it is able to use common components in manufacture which boosts production efficiency, saves costs and therefore improves price competitiveness.

Products like mobile cranes and road graders are gradually being phased out while Volvo BM's range of dump trucks—it is the world's largest supplier of articulated dump trucks—has been expanded with the recent acquisition of Kockums Landsverk, formerly part of the troubled *Kockums* Swedish shipbuilding group, taken into state ownership in 1979.

Where gaps have appeared in the company's range of excavators, it has developed marketing arrangements with Poclain of France and with Orenstein and Kuppel of West Germany. It seems likely, that sooner or later, Volvo will wish to expand its own excavating interests. An acquisition given the current difficulties in the industry, would seem a logical move.

The importance of European *markets to Volvo sales* is underlined by the fact that the company was the second largest supplier (just behind Caterpillar) of wheel loaders in Western Europe during 1981.

Exports to non-Nordic European countries despite a 15 per cent decline in sales to SKr 533m, still accounted for 28 per cent of group sales in 1981.

Volvo BM takes the view that as a leaner, fitter, company—the average number of workers employed had fallen from 4,800 in 1976 to 4,200 in 1981—it will continue to display resilience in what seems likely to be a continuing difficult market for construction equipment manufacturers.

Mr Eric Johanson, president of Volvo BM, says: "Divestments made by a number of companies *do not* appear to have reduced over-capacity in the industry. We expect this situation to continue through the current decade."

Forecasts of recovery in building

THE LIMITED recovery forecast for the UK construction industry this year has recently focused on secondary beneficiaries like the building materials sector, and two reports currently in circulation back up this line of thought.

London stockbrokers Vickers da Costa say that the recovery this year and next seems certain to be concentrated in:

- New housing, both public and private;
- Road building and repair; and
- Housing repair and maintenance.

"We believe that improving output is beneficial for all building materials groups," say Vickers, "with the degree of benefit for individual companies depending on exposure to the most buoyant sectors."

Meanwhile, the Builders Merchants Federation predicts major sales increases in the next 12 months. The BMF, after an extensive survey of its members' anticipated sales for the next six months and the next 12, says that 85 per cent of the sample went for higher sales in the year to next March, with 79 per cent saying the same for the six months to September.

These figures, says the *BMF, compare favourably* with the last survey when only 66 per cent predicted more sales to next September.

For contractors, say Vickers, the prospects are less clear cut. The crucial factor over the coming months, *they say,* will be how they can balance the benefits of rising demand on new tender margins against the damage which could be done to existing workloads by building cost inflation, and possible shortage of materials and components.

Reg Williams, Director of the BMF, says: "We are delighted to see confidence . . . return to the majority of our members."

WILLIAM COCHRANE

£16m work for Cartwright

The JOSEPH CARTWRIGHT GROUP has gained contracts during the first quarter of the year, worth over £16.4m. A major project is the Carmarthen to Bancyfelin Hill diversion scheme, which has been awarded by the Welsh Office. Valued at around £6.5m, the contract calls for 7.4 km of 7.3 metres wide dual carriageway which continues the main A40 London to Fishguard trunk route improvement programme from St Clears to Carmarthen. The scheme includes the provision of three bridges, culverts and an underpass and will require major excavation works. Awarded by the Northern Counties Housing Association is a £1.6m housebuilding *project* at Cheetham Hill, Manchester, which comprises the construction of 86 dwellings and external works. At Caerlon, Gwent, the company is commencing a £1.5m housing project for the Newport Borough Council which includes the erection of 84 timber-framed dwellings and external works. Hayward & Wooster (a subsidiary) is also to build a block of 31 flats for disabled persons at Llantrisant, following award of a £920,000 contract by the John Grooms Housing Association.

CONTRACTS

Wimpey wins £19m orders

The National Coal Board Opencast Executive has awarded WIMPEY CONSTRUCTION UK an £11m contract for opencast mining at Maes-y-Marchog, Glynneath, near Neath, West Glamorgan. Work, which will include haulage to NCB disposal points, starts this month and is due to be completed in November 1985.

A contract valued at £4.7m has been awarded by Lancashire County Council to Wimpey Asphalt for resurfacing both carriageways of the M6 between junctions 25 and 27 between early April and the end of October, cold planing existing wearing courses in parts, raising drainage gullies and manholes and supplying and laying hot rolled asphalt readbase, basecourse and wearing course.

A sheltered housing unit and 12 bungalows valued at £2.36m are to be built by Wimpey for the London Borough of Redbridge in Albert Road, Ilford. The housing unit will be partly two- and partly three-storey and comprise 59 flats, two wardens' units, common rooms, kitchen and plant rooms. Walls will be of brick cavity construction and roof of timber, pitched and tiled. The project is due to start in April; construction will take about two years.

A design and build contract, valued at £988,000, to build a production extension at Forest Gate, E7, has been awarded to Wimpey by British Bakeries, Slough, a division of Ranks Hovis McDougall. Construction will take place in two phases, starting in March and finishing in October. Phase one comprises demolition of existing premises and construction of a 2,250 sq metres single-storey steel-framed bread production area with asbestos roof and profiled metal wall cladding. Walls will be of block, faced with brick. All M & E services are included in the contract. Phase two covers demolition of *old bakery building* and provision of a car park and drainage

*

Swindon Private Hospital has a contract with LESSER DESIGN AND BUILD for the construction of its premises at a cost of £1.77m. It will be known as Ridgeway Hospital, and the project will be carired out under the management of the London Private Health Group. Construction and fitting out is expected to take 14 months.

*

FRENCH KIER CONSTRUCTION a member of the French Kier Group, has been awarded a contract, valued at £5.452m, by Dover Harbour Board, for Phase II of the passenger handling terminal at Eastern Docks. Work starts in April for 64 weeks. The company also has a contract from Lewes District Council for a district swimming pool at Newhaven. The contract, worth £710,000, will commence in April and is for 75 weeks. Another contract is for 38 flats for the elderly to be erected in Broadway Minster, Sheppey. Valued at £525,366, it is for 15 months.

*

PRESS (GREAT YARMOUTH) has been engaged by Shell Exploration UK to carry out the offshore hook-up and commissioning work on the six-well "E" platform for the Leman Bank Field. The contract, which *is* expected to have a value over £500,000, will entail onshore pipework and support structure fabrication, and the offshore installation of mechanical, electrical and instrumentation systems and pipework.

TECHNOLOGY

EDITED BY ALAN CANE

GENERAL ELECTRIC OF THE U.S. THRUSTS IN TO PLANT AUTOMATION

Factory systems that talk to each other

BY GEOFFREY CHARLISH

CALMA has launched two powerful computer-aided design and manufacturing (CAD/CAM) products in Europe and has announced Calmanet, a communications system that will allow the design systems to talk not only to each other but to other computer aided production and manufacturing systems.

It is a further sign that General Electric Company of the U.S. is intent on becoming a world force in the information-based factory automation market.

Artificial

In the space of two years GE has acquired Calma and has set up GE-CAE International with Structural Dynamics Research Corporation (a leading computer-aided engineering software house). In addition it has purchased semiconductor company Intersil, entered the robotics and artificial vision markets and developed a means of communication between shop-floor machinery (GE-Net).

The company can also field GEISCO (General Electric Information Services Company), which owns a global computing network with 24 hour dial up from 750 towns to three big computer centres.

At the same time it has been taking its own medicine and has spent a staggering $2bn automating its own factories in the professional engineering and consumer products areas.

Among the corporate R and D projects in hand is one that will enable robots to be programmed by animating them on the CAD screen—another "link between computer-aided islands."

The company also has a considerable, if unsung presence in Europe, where it did $2.5bn of business last year and now employs 20,000 people.

But quite rapidly, the emphasis of its activity is shifting. Ten years ago 75 per cent of the total turnover was in the electrical market but last year it was only 40 per cent. Some 28 per cent of current sales are in high technology areas, but that is expected to rise to over 50 per cent within five years.

Over cocktails, company executives are prone to describe GE as "more general than electric."

Calma's new systems are forging further links in the chain. One of them, the model 7000, is based on the DEC VAX 11/750 or 11/780 computers, offering rapid on-screen response in colour via 32-bit processing. Solids modelling is offered, in which the designed item looks like a colour photograph (with any chosen direction of lighting), as well as the normal 2D and 3D representations.

Furthermore, the 7000 allows engineering analyses to be run that previously would have required off-loading to a mainframe computer.

Apparently the DEC machine was chosen after market research showed an industry preference. It is significant though, that Calma's sister company GE-CAE at Hitchin is also using these DEC machines. In fact the two companies do seem to be heading in rather similar directions, and there are rumours of impending rationalisation.

With four terminals, the 7000 costs between $0.4m and $0.5m, depending on configuration and software.

Network

Bob Benders, President of Calma, believes that "the cards are being re-shuffled in CAD/CAM." More people, he says, are now thinking in terms of distributed systems and everyone in the business has to seriously consider communications to other factory systems.

So at under $100,000, Calma is offering model 170, which is based on microprocessors and can operate in an office environment as a self-contained standalone unit or as part of a distributed network of automated factory systems. A 16-bit system, the 700 can do virtually everything the 7000 can do, but will simply take longer according to a Calma spokesman.

However, the most significant development by the company is Calmanet, because it acknowledges the growing need for the various computer-aided parts of a factory—at present tending to develop in a piecemeal fashion—to be able to communicate intelligently.

Calmanet is not physical networking hardware, but a software approach that will, for example, allow CAD/CAM-derived information to determine such things as robot motion and machine tool cutting paths, or control vision systems for automated inspection.

According to Jim Carro, vice-president for European sales, Calmanet will also embrace stock control, shop ordering and other more traditional forms of production control computing.

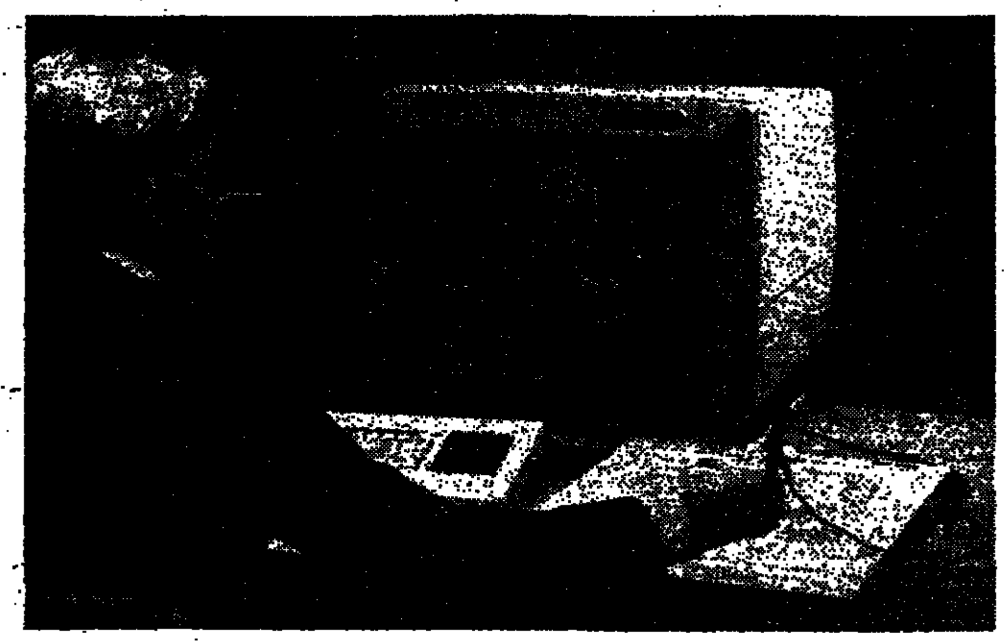
"At the moment," he said at the Camberley launch of the new products, "we are only seeing the tip of the iceberg."

Physical networking systems over which Calmanet can operate are Ethernet in the office environment, GE-Net for broad-band communications on the factory floor, and Hyperchannel for international linkage.

So the company seems set fair to capture an increasing share of this changing market. It puts the present CAD/CAM market at about $1.4bn world-wide and claims it had 10 per cent to 11 per cent last year. It expects to have 12 per cent to 13 per cent this year.

There are some 230 Calma installations in Europe, of which 84 are in the UK. But except for the electronic circuit design machines, which directly deploy mask making data, few are so far linked directly into manufacturing.

The company acknowledges there is a long way to go yet. It also appreciates that for large numbers of manufacturers, even $100,000 is too much to pay and hints at more low-end products soon.



The Calma 170 is a new CAD/CAM system that offers many of the advantages of a full-sized system at a much lower cost. The Calma 170 is designed for the office environment and requires no special power or air-conditioning. The high-resolution video display allows designs such as this one of a 35 mm camera to be shown with greater accuracy for ease of design

Second success for Lichfield company

Good design award for mini-solenoids

IMI Norgren Enots, a subsidiary of IMI in Birmingham, introduced a series of integrally ported pneumatic valves operated by miniature solenoids in November last year. The inter-changeable components offered nearly 600 permutations, reduced space, lower electrical consumption, a diagnostic spool indicator and manual override facility.

Known as the X4 Series, the design has won a Good Industrial Design Award at the Hanover Fair in West Germany. In 1979 the company won a similar award for its Olympian 15 series of plug in filter, regulators and lubricators for compressed air systems.

The company is at Eastern Avenue, Lichfield, Staffs (05432 54151).

MACHINE TOOL DEVELOPMENTS

New series of profile cutters

BY MAX COMMANDER

SHAPECUT MACHINES, the Reading based company, has announced its new range of profile cutting machines — designated the 7000 Series.

Designed for heavy duty applications, the machine's feature a 200 mm square hollow section main beam machined in the company's own workshop and fitted with replaceable wearing surfaces. The rail and stand assemblies are supplied in two metre modules.

The series has been designed for oxy-gas cutting of mild steel with a speed range of 25/750 mm per minute. Configurations are available up to three metres wide tracing and cutting with the standard machine capable of carrying up to six standard or heavy duty motorised torch assemblies for cutting up to 150 mm.

Thicker materials can be cut with alternative torches while the Supercut and CNC series are available with higher speed ranges for plasma and laser applications.

Shapecut, set up in 1971, now *claims to be the only major* British owned manufacturer of profile cutting machines with a range up to and including CNC machines to sizes needed for shipyards and large construction shops.

New from Sykes Machine Tool at Staines, Middlesex, a member of the 600 Group, is a series of four wire cut electrical discharge machines. Entitled the Fanuc Tape Cut K, L, M and N, the company believes that they will interest companies involved in press tool, plastics mould and aluminium extrusion fields.

Sykes says that the series is capable of fast and accurate production of intricate shapes from hardened metal and, in the case of models L, M and N, which have four axis control, the cutting of tapered shapes.

● Dynacast International of Alcester, Warwickshire, claims that a timer gear, originally manufactured as a three part assembly, can now be produced as a one short, flash-free die-casting.

Dynacast, a small component specialist, says that its single cavity, multi-slide technique applied to zinc diecasting and thermoplastic injection moulding can produce consistently accurate spur, worm, rack, bevel and helical gears. Large scale production of complicated precision gears can be achieved with tolerances of plus or minus 0.33 mm held on all critical *tooth dimensions and up to* 0.013 mm on centre holes.

Shapecut Machines is at Perimeter Road, Woodley, Reading, Berkshire (0734 696565); Sykes Machine Tool Company, Hythe End House, Chertsey Lane, Staines, Middlesex (Staines 55474). Dynacast International is at Arden Forest Industrial Estate, Alcester, Warwickshire (0789 763322).

Lifting without maintenance

Simplicity the secret of mechanical jack system

WESTPILE International of Uxbridge has developed what is described as a new mechanical jacking system which once installed does not require maintenance and therefore can overcome the usual problems associated with similar hydraulic systems.

Known as the Harjak, it relies on the simple principle of moving a wedge between two opposed wedge surfaces using a central bolt which can be operated using conventional sockets and drive equipment. Standard units have a capacity up to 75 tonnes, a lift of 20mm and a closed height of 80mm, but can be designed to provide greater or smaller loads.

Details from Westpile on 0895 57071.

Survival

Suit for oilfield travellers

THIS is Transuit, designed by a Merseyside company for helicopter passengers to the North Sea oilfields. It is a lightweight immersion coverall in polychloroprene coated nylon, claimed to be totally waterproof, abrasion resistant and comfortable to wear over normal clothing.

Four sizes are available with reflective tapes, fluorescent orange outer hood, adjustable pressure belt and relief valves. Optional extras include a gas inflated built in life jacket, an inner lining with or without buoyancy, non-slip rubber boots and integral mittens. The basic model has a trade price of about £168. More on 051-652 9151.

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

Fisons' formula for fighting the drugs giants

Christopher Lorenz analyses the UK company's belief that a minnow can swim in the big league

CAN A small drugs company survive in the maelstrom of today's world pharmaceutical market, when even the international majors are complaining about crippling competition and soaring research costs?

John Kerridge replies with an emphatic "yes."

He would, wouldn't he? After all, he's the chief executive of just such a company—Britain's Fisons, one of the born-again darlings of the UK stock market, but ranking only about 60th in the world pharmaceutical league.

But wait. Something must have changed. Just three years ago this month Kerridge's very own predecessor in the top executive seat, Sir George Burton (he was then executive chairman, now he's non-executive) was admitting to grave doubts about whether *anyone's* chemical research could continue to pay off, not only in the face of competition and inflation, but also under the pressure of tough regulatory controls and insistent demands *from investors for a good short-term return.* "The cost of the next generation of products *may really floor you,*" said Sir George in a gloomy interview.

As head of an enterprise with an ambitious and relatively young research programme in agrochemicals as well as drugs, Sir George was in effect questioning the whole basis of the company's portfolio of businesses; if pharma and agchem were going to eat up more cash than they could generate, how could Fisons continue with either of them, let alone both, without adding an extra leg to the portfolio, in the shape of a generous new "cash cow?"

Such godsends are hard to find at the best of times, but the troubled company was certainly considering various ways of grabbing one, including a possible acquisition in the service sector.

Over the next few months Fisons' world fell apart, and its share price fell by almost two-thirds, to just over £1. In June, Sir George's chief executive resigned (Kerridge taking over). In July Sir George answered the agrochemicals part of his question by announcing that this division was to be hived off into a joint venture with Boots, which would share the risk of future research and development. In September Fisons reported a slump in profits, the following March a loss, and in between a spate of redundancies. Worst of all was January's last minute abandonment of proxichromil, a new, much-publicised anti allergy wonder-drug, because final tests had shown it to be unsafe.

With circumstances so dire in late 1980 and early 1981, it is not surprising that John Kerridge can recall intense discussions about whether Fisons should *follow* the *hiving-off* of agchem with the sale of its pharmaceuticals division.

Such a move would have disposed of both of the company's high-risk research-intensive businesses, leaving it, the argument went, with enough cash not only to cultivate its horticulture and scientific equipment divisions (which it has indeed done) but also to shore up the ailing fertiliser division.

"The decision to stay with pharmaceuticals," says Kerridge, "was just as conscious as shedding fertilisers"—which was the eventual course of action decided by the board and carried through a year ago with the sale of the business to Norsk Hydro (FT, March 11).

The essential argument which won the day among his colleagues, he says, was "my belief that you should not chase more R and D than the business can afford"—but that, if it were more tightly managed, the pharmaceuticals division could indeed continue to afford enough R and D not only to *survive, but to prosper.*

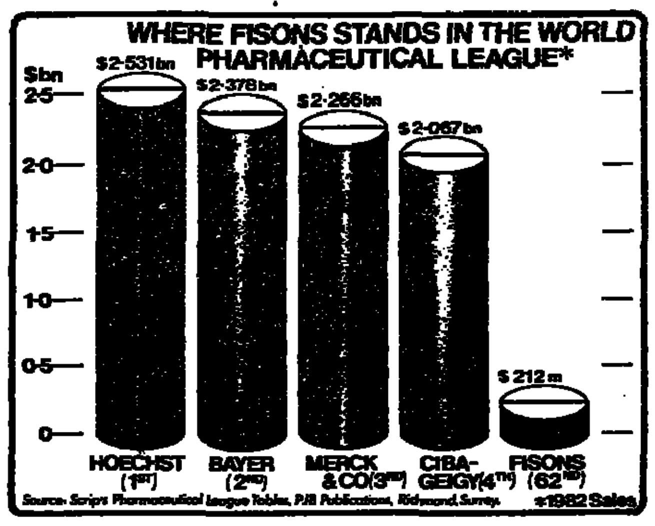
Indulgent

"One of the great mistakes Fisons used to make was to think that R and D just has to be a long-term thing, and that you can't relate it to short-term performance," says Kerridge.

Such an attitude leads everyone always to wanting "just another pound" (or thousand), he says. Instead, you should adopt the approach that "if it doesn't work, dont go on spending."

"This is absolutely key," he emphasises. "I think perhaps we made a mistake in the past by putting more funds into *agrochemicals* without demanding a return from it."

The same indulgent philosophy also seemed to apply to pharmaceuticals. Though the division actually became cash-positive in the mid-1970s, taking it firmly into the "star" quadrant of the famous Boston Consulting Group portfolio matrix, there was always thought to be a risk that it could slip back into the



"question mark" category of cash-negative businesses.

By the standards of competing drug companies, Fisons' 15-year-old research effort is still relatively young—it claims to be one of the last research-based pharmaceuticals operations in the world to establish itself from scratch—and its profitability and cash flow are still heavily dependent on products developed from the first key compound it discovered, sodium chromoglycate (the best-known use of it is Intal, which treats asthma).

So behind Sir George's questioning in March 1980 lay not only the pressures of competition, regulations and costs, but also the failure during tests of two of the next three compounds on which his scientists had been working. What he could not know was that the third, proxichromil, by which the company had set great store —foolishly in public as well as behind closed doors—was about to go the same way, leaving Fisons with a yawning gap at the end of its research chain.

Hence the doubt then in some top managers' minds, not only Sir George's, about whether the company could afford to plough on with its drugs effort.

Not so *John Kerridge. He is* the first to make the point that "ultimately, the success of that division will be the success of R and D. If you don't have a flow of products from research, you won't be in the business long-term." But at the same time, by "doing a Beecham," and exploiting its existing compounds and product derivatives more thoroughly, he insists that "the business was big enough to fund itself" in spite of the failure of proxichromil.

And so it has proved over the last three years. There have been only a handful of changes among the senior pharmaceutical *managers. But* Fisons is now making more money out of its drugs than ever before, thanks to the way tougher attitudes and procedures have been grafted on to the changes management was making both in product development and marketing—as well as in research—before Kerridge took over at corporate headquarters.

Of particular importance for the future is that a much stronger emphasis on product development has more than doubled the company's new product registration rate in the past two years — the latest launch, an anti-hay fever spray, is being announced today. Drug companies "always suffer from a tendency to move ahead to the next thing," complains Kerridge: "R always seems more glamorous than D—it's the nature of the people in the business."

Yet in 1982 the biggest sales breakthrough of all was what he calls 'straight product development"—an aerosol device to deliver Intal.

Sales of it are booming. So is Fisons' turnover in a lengthy list of products with a range of entirely different constituents. They include Dextran, a blood volume expander, and the mundane but increasingly lucrative range of Sanatogen tonics and vitamins. As a result, the proportion of Fisons' pharmaceutical sales which is based on sodium chromoglycate, its first discovery, has fallen to

DIVISIONAL BREAKDOWN

	1982 £m Sales	Activity profit*
Pharmaceuticals	126.4	19.4
Scientific equipment	85.1	4.8
Horticulture	42.0	2.7
Agriculture activities†	97.0	3.0
Total	350.5	29.9

Notes
Fertiliser division sold in June 1982
* Pre-tax profit before finance charges. † Fisons' share of joint company with Boots.

about two-thirds. This trend applies not only to the UK—which accounts for under 30 per cent of the division's turnover —but also to its markets as far afield as Japan, West Germany and the U.S.

Dr Derek Quantock, who took over as the division's research director in 1977, and has subsequently been elevated to the post of deputy chairman and director of science and technology, began as early as 1978 to encourage staff to widen their horizons to deal with product development, and not just research breakthroughs.

But, as so often in management, it took a crisis of considerable magnitude to stimulate real and widespread acceptance of the need for change. "The failure of proxichromil created the recognition, in both R and D and marketing people, that the search for new chemical entities should not be the only priority," he says.

Barriers

However stark, this message could not have been followed up so quickly if Quantock had not already begun breaking down the barriers between R and D, marketing and production. Taking the existing but embryonic project management system, which when he found it was confined just to R and D, he introduced interdepartmental project teams right down the organisation.

It was from 1979—just before proxichromil's demise—that marketing people really began to be pulled into the system. This, says Quantock, "has been built further over the last two or three years, so that now we have a total blend—the bridges between the functions are damned great motorways. The secret is getting people four or five *levels* down to *talk* to each other, and then to have a system for the idea to surface."

In the last 12 months the approach has been streamlined further by improving co-ordination between R and D and production. A crucial production department ("pre-production") has been transferred to the R and D centre 80 miles away. "That saves *months!*" declares Quantock.

As *for* John Kerridge's own impact on these continuing improvements in the management of the pharmaceutical division, Quantock cites a "tremendous concentration on the selling effort, right down to the training of reps." Along with managers elsewhere in the Fisons group, he also admits the mind-concentrating effect of *Kerridge's instruction to* "find out where your cash is!"

Financial controls have improved throughout the division, says Quantock, with stringent cost containment measures being applied to all activities, from research to production. Kerridge proudly claims that the considerable increase *in* funding of product development (Quantock has quintupled the size of his development staff to over 80 in the last three years), was financed through cutting research overheads, rather than trimming research itself. In fact research expenditure has been held in real terms over the past two years, and is now slated for an *increase;* though the company will not reveal a figure, last year's expenditure is thought to have been about £13m, just over 10 per cent of sales.

This increase will help the division finance its expensive new commitment to a "pyramid approach" to research (see inset).

Though Derek Quantock claims that Fisons now has "a very interesting and substantial" programme of research into new compounds, it remains to be seen whether this and all its other efforts will prove enough to keep Fisons one step ahead of the drug giants in its chosen areas of technology and the marketplace.

Even if Kerridge and Quantock are right in disagreeing with the cynics who say that drugs research is merely "molecular roulette," everything will depend in the final analysis on Fisons' "hit rate" with new compounds. Quantock himself agrees that in pharmaceuticals *this* very often depends on an element of luck.

THE disastrous demise of proxichromil, a new anti-allergy drug on which Fisons had been depending for the long-term health of its pharmaceuticals business, had a catalytic effect on the company's research management.

R & D chief Derek Quantock (above) says the collapse two years ago rammed home the need for a "pyramid" approach to drugs research: the furthest developed and most likely front runner (or runners) should always be followed, only a year or so behind, by two more runners. These should be backed, at a similar interval by three; then by about five; and so on, right back through the long research process, which can start 10 years or more before a drug is eventually launched on to the market (if it gets there at all).

Several obvious problems with this textbook approach have been pointed out by a number of critical competitors and industry analysts.

First, if the lead runner fails, so can a lot of the others. Quantock admits this —it is precisely what Fisons suffered just before the proxichromil collapse.

Second, it *is* a difficult policy to sustain as one promising new compound nears the end of the research process, and as the company's financial and psychological commitment to it increases. Though Quantock says the division began to think along *pyramid lines from about* 1977, one Fisons executive claims that a number of other potential runners had been "underfunded and left behind" as energies were concentrated on proxichromil.

Third, it is an expensive approach, even if it does remove some of the risks. Like Fisons, a company can contain costs to some extent by focussing its search on types of chemicals and applications with which it is *familiar,* and by becoming tougher with scientists "who ask for just three more months", as Quantock puts it; he does not accept that the timing of chemical research is as haphazard as some critics claim, especially when the company is working in familiar territory. A good sifting process at the bottom of the pyramid can also help, he says, *by* minimising the list of runners. You can also put certain of them on delay at various stages — "they don't all have to be active".

Quantock's most forceful justification for the approach is simply that "when you've been through the bloody experience of having a crucial drug *fail* — and I mean bloody — you can't let it happen again". He takes a *swipe* at competitors who criticise the pyramid policy, by pointing out that you do, of course, have to have found sufficient runners in the first place in order to be able to build a pyramid. Unlike a number of much larger companies, Fisons says it has been clever or lucky enough *to do just that*—this time around, at any rate.

CONTRACTS AND TENDERS

THE ARTS

Welcome Home/Theatre Upstairs

Malcolm Rutherford

There are two things—and possibly only two—at which the British are outstandingly good. One is acting, the other is fighting. It is not the quality of the playwrighting that scores so highly, though it helps: it is the quality of the performances.

Equally, the British may be a pacific people, but they rise to the military occasion. The storming of the Iranian Embassy in London in 1980 was one example, underlined by the fact that at the same time the Americans were floundering over the hostages in Tehran. Repossession of the Falklands last year was another, on a larger scale.

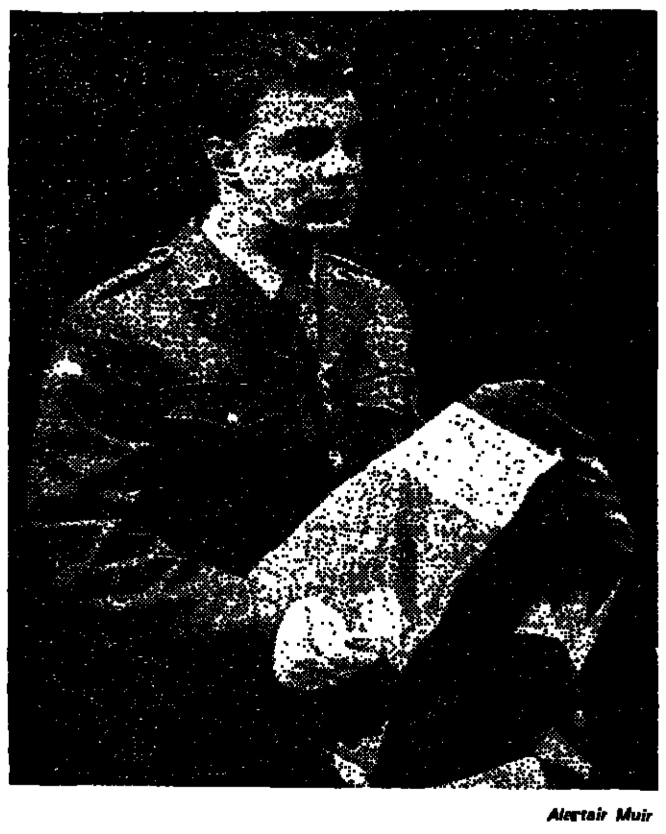
Put those two talents together and the combination should be electric. In this case, it is. *Welcome Home* is about the paras back in Britain and going to bury a comrade from the Falklands campaign. There are four privates, one corporal. There appear to be no great differences between them except that one private has a *touch of* the homosexual, another turns out to be married with a child whom he loves, a third is hooked on pop music, and the fourth, supposedly the toughest of the lot, is the one who climbed up the hill to bring down the dead body.

The corporal is a bit older and given to exercising authority: for example, by delivering well-placed kicks in the midriff. But his affinities are clearly with his men rather than the senior officers who never appear and are scarcely even mentioned.

The play works on several levels. One contrast is between the professionalism shown in the campaign and the feeling of futility when the men return to Britain. Another is between individualism and teamwork. Quite the strongest, however, is between the paras' external toughness and inner sentimentality.

First Goldy, the near homosexual, almost breaks down and is prepared to ignite the British flag rather than lay it over the coffin. He is kicked for his feelings. Then Polo, the pop addict, breaks down completely, ostensibly for no other reason than the disgrace of being out of step in the funeral procession. In the end, mutual compassion and comradeship prevail, but it is a close run thing.

Tony Marchant's play is performed on a small open stage. The triumph is that the actors become soldiers. Whether it would transfer well to a larger stage is doubtful. But it would certainly make a superb small screen movie.



Alastair Muir

Ian Mercer

Television/Switch

Antony Thorncroft

A few years ago I asked a top television executive why thtere were so few TV programmes devoted to pop music. His flat earth reply was that young people did not watch television; presumably they were too busy beating up old ladies. This seemed a perverse reaction then, especially as the BBC was quite content to give over one of its national radio channels to pop and British rock music was one of the few national success stories of the post war world.

Well, that has all changed now and the common sense feeling that if you put on music programmes for teenagers they would watch them has proved correct. Fortunately Channel 4 has decided that young people are a minority and currants its schedules with music. Its showpiece presentation, transmitted over many generous minutes on a well-timed Friday evening, was *The Tube*. This has done well enough to earn a summer break and last Friday was replaced by *Switch*.

Replaced may not be the word, for the ingredients are identical. Two, oh so carefully matched presenter—*Switch* has a bouncy black girl, Yvonne, balanced by Graham Fletcher-Cook(could be be representing the middle class minority?)—take over the introductions from the successful *Tube* oddballs of Paula Yates, who was trendily pregnant, and Jools Holland, a pronounced character who developed an intriguing personality. But while these are early days *Switch* seems to be a packaged formula which is already last year's model.

A couple of bands promoting their latest albums; some pop videos ditto; and a whisper of reportage which did not rise above the *unimaginative* heights of a scury down the King's Road, is very second hand. There was also a fleeting critic (a good idea), but he only offered opinions with no supporting facts. As this was a first show there were goodies—a typically bizarre Grace Jones video and songs by Paul Weller (ex-Jam) and his rock package Style Counsel, but compared to the last edition of *The Tube* it was tired stuff.

The Tube ended on a very high note. There was a bow towards the past in a deferential interview with David Bowie, and *his* latest promo video, but *The Tube* had Paul Weller's successor as the popular cult—U2. This Irish band has a "by golly aren't we good" smugness about them, but they are, even if their stage craft, culminating in singer Bono waving a white flag over the crowd, already looks contrived. But they fitted in with *The Tube's* theme for the programme—a comprehensive look at the music scene in Northern Ireland which suggested a lively vigorous and talented renaissance battling more against the nautical miles of the Irish Sea rather than The Troubles. Irish bands are the fashion and Jools Holland's report explained why — and Cruella de Ville should soon be on *Top of the Pops* with "Gypsy Girl," which sounded very popular indeed.

The problem with both these programmes, and virtually all their competitors, is a determination to be the equal of the audience which is very patronising. An indeterminate accent; a self-depreciating coolness; a false matiness which attempts to say, "look, I known you could do this as well as me, perhaps better, but let's stick together all the same because it is "us" against "them." This irritating pseudo-trendiness does not, of course, affect *Top of the Pops* which is "them"—*i.e.* the majority of the country and the majority of the country's youth.

Top of the Pops has few supporters but its high audience figures prove that it is doing what it sets out to do—the simple business of being a visual Radio One.

Hamburg State Opera to the rescue of Covent Garden

Covent Garden has abandoned its new production by Piero Foggioui of Manon Lescaut which ran into difficulties with the sets. It will be replaced by the Hamburg State Opera production of the same opera, produced by Gotz Friedrich with sets designed by Gunther *Schneider-Siemssen*. Citibank is continuing with its sponsorship of the opera.

Janet Smith/The Place

Clement Crisp

Janet Smith and he quintet of dancers have just ended a brief engagement at The Place. The particular character of Miss Smith's dances has to do with directness of presentation—things are, strange to say, just what they unassumingly seem — and directness of means.

The audience on Friday evening were warm and enthusiastic in their enjoyment, responding to the thin jokes of a criketing fantasy, *Square Leg*, as to the simplicities of *Until the Tide Turns*, which was earnest about fisher-girls in turn of the century Whitby, and to the little incidents and jokes of *Another Man Drowning*, whose inspiration is the world of L. S. Lowry's paintings.

These pieces, choreographed by Janet Smith, and Christopher Bruce's danced illustrations to Billie Holiday blues, *Holiday Sketches*, are decent, and very decently danced. They present no problems to their audience; this is middle of the road contemporary dance, and welcomes as an antidote to the pretentions and inadequacies of certain other small troupes where effectiveness is in an inverse ratio to creative numbness and woolly technique.

That I found the programme bland and curiously dated reflects my own unease at its unrelenting niceness. With its girls playing at being fisher-folk, its revue-style cricket jokes (though no revue would tolerate anything to long drawn out), its dance-hall derelicts bemoaning their love-lorn state, and accompaniments that were too often thin and garrulous, the evening appeared determinedly mild in tone.

Janet Smith is beautiful; her dances are neatly made; her companions work with a will. In *Dull London* D. H. Lawrence wrote that "everyone makes everything so easy for everyone else, that there is almost nothing to resist at all." I would have welcomed a piece of grit, a bitter flavour, a dance-idea that was barbed and contentious and as cosy as a hand-grenade in the semolina.

Buddy Rich/Ronnie Scott's

Kevin Henriques

By normal standards Buddy Rich's hour-long set between 2 and 3 am last Friday was a remarkable *tour de force*, both by the dapper, dynamic drummer and by his crisp, youthful, supercharged 14-piece band. It entered the realm of fantasy by virtue of the fact that about two months ago the 65-year-old bandleader underwent open heart surgery. As he blithely said the applauding Scott Club patrons at the end: "I thank you from the bottom of my scars."

Yet on Friday there was not a visible shred of evidence of illness or diminution of powers as he difiantly led his men through an admittedly mainly familiar repertoire, much of it at break-neck speed. Rich's own playing was as fast and agile and commanding as ever, full of unpredictable, fanciful touches, such as playing brushes on his bass drum. His brushwork has always been a compelling but not sufficiently acclaimed facet of his style but on this occasion it was more dominant than previously and included a delicate, but cleverly sustained, longish solo during a *Porgy and Bess* medley.

Once again Rich gave a masterly lesson in th eart of drumming: the slow-building snare-drum rolls, the base drum punctations, deft use of the closed hi-hat and the sustained speed were all paraded before a worshinpping audience

The band itself follows in the mould of all earlier Buddy Rich outfits—fearsome attack and section work of impeccable precision.

Only four members were here on last year's tour—saxists Steve Marcus, Andy Fusco and Mike Bishop and pianist Lee Musikar. It so happens that they more than capably handle the bulk of the solos,

Rich and his men are now on an unenviable series of one-night stands including visits to Belfast and Dublin, concluding with two more evenings at Scott's on April 15 and 16. The indomitable drummer and his musicians are not to be missed.

Victory/Royal Court

Anthony Curtis

The people in Howard Barker's Victory — sub-titled "Choices in Reaction"—were the standard Cavalier and Roundhead costumes of the 17th century. Several have names which correspond to those of historical people who played a leading part in the period immediately after the Restoration: Charles Stuart "A Monarch," Milton "A Genius," Bradshaw "The Widow of a Revolutionary." She is Mr Barker's heroine. Her husband, now dead, was John Bradshaw, the regicide, who was briefly buried in Westminster Abbey. His body was exhumed, hanged publicly at Tyburn and decapitated; his head was impaled on a pole and put on show beside what had once been his court.

This gruesome incident has inspired Mr Barker to fabricate even more gruesomeness along the same lines. He has Nell Gwynne making love to poor Bradshaw's severed head on stage by royal command. He makes Mistress Bradshaw journey through the England of the Restoration in search of her husband's remains, "his bits" as she calls them. He provides her with a boisterous Cavalier lover and she becomes by turns an animal at bay, a mendicant beggar, a lady's maid, a member of the court; finally, a wife and mother again with one husband in tow (quite ilterally, he is tethered like Becket's Lucky to a rope) and the head of her former lord in a bag.

Mr Barker is jolly careful not to say that his play is intended to be historical. The history emerges throwaway fashion from the dialogue. History is the basis for a dramatic fable about the condition of England in a post-revolutionary period. The moral is obscure but it seems to be that the Restoration was just as bad for most people as the protectorate. One set of values were replaced by another equally repressive. One set of bullies was exchanged for another.

The theatrical impression registered by such a manipulation of quasi-historical material is difficult to describe. It is as if Brecht and Kenneth Tynan had collaborated on a re-write of *1066 and all That*. In such a view history is not a source of ennoblement: it is a grim, grey mirror of the present stuffed with obscenities and expletives. History is not something in which to take pride or pleasure: it is something in which to have one's nose rubbed.

Amidst all the degradations and execrations of this partial view stands the all too human figure of Mistress Bradshaw, played miraculously well by Julie Covington. Some of the lines she has to say stab the heart by their eloquence, as when in desperation she steals a wallet from a passing yeoman she has embraced. There are stark contrasts throughout between the loves of the "haves" and "have nots."

The whole company are required to double and treble roles and to become part-time scene shifters at the end of an episode, often having to replace floorboards when we pass from a Suffolk exterior to a London interior. Such are the rigours of Joint Stock. Despite all this to-ing and fro-ing, Danny Boyle's production remains shapely and fluent.

Good work comes from Nigel Terry as King and Genius, Kenny Ireland as the randy Cavalier who pays a harsh price for his lusting, and Toby Salaman as Bradshaw's one-time secretary. Not an evening for the squeamish.

Alastair Muir

Julie Covington and Nigel Terry

Katya Kabanova/Grand Theatre, Leeds

Andrew Clements

Opera North already has one Janacek opera under its belt, a production of *Jenufa* which was borrowed from the Welsh National/Scottish Opera cycle. Its new *Katya* which opened at Leeds Grand Theatre on Saturday night, was also originally intended to be acquired in the same way. But in the event producer Graham Vick and designer Stefanos Lazardis have produced a brand new staging for little more than the cost of adapting a second-hand one and made a considerable virtue out of economy.

Here is a view of the opera with excesses stripped away, an approach that matches the crispness and impact of Janacek's score. A set of two diagonal walkways and a revolve holding the Kabanikha household is sufficient. The result allows scene changes with the absolte minimum of delay, and the first two acts can be played without an interval as the composer came to prefer, tightening the cumulative power of the evening markedly. With so much of the action taking place on the revolve well above the level of the stalls, balance between the stage and pit is not always ideal, yet a very high proportion of Norman Tucker's English text is conveyed.

At the centre of this stark conception is Marie Slorach's Katya. It is not an histrionic, wildly flamboyant account of the role, but the more moving for its intelligent ordinariness, aiming for expressive beauty more than sheer power. Miss Slorach is careful to grade her responses; the first act is deliberately understadte, so that the first confrontation with Kabanikha loses some of its intensity, butthereafter the opera moves on a sustained curve, the inevitabality of it all counterpointed by the straight-forward settings. David Lloyd Jones delivers the score with equal directness, eschewing any tendency to rush or apply a cosmetic veneer.

Miss Slorach is the centre of attention whenever she is on the stage but she is supported strongly. Judith Pierce makes a baleful Kabanikha, physically imposing and vocally capable of chilling cruelty. Bonaventura Bottone's Vanya, easy of voice and manner, is the pick of the men, though the Varvara of Barbara Walker is less settled at present, inclined to flurries of tone and occasional physical awkwardness. There is an intriguing mix of nobility and weakness in Anthony Roden's THikhon, and a sharply etched characterisation in Dennis Wick's Dikoi. The Boris of Philip Mills is the only marginal disappointment, giving ess body to hte character than even Janacek's scenario allows, and coping uneasily with the high *mezza voce* that the role sometimes demands.

As a company production however, it is thoroughly impressive, without serious weakness and with many strengths. Miss Slorach, in particular, desrves to be widely seen and heard.

Ann Murray/Wigmore Hall

Dominic Gill

Although the mezzo-soprano Ann Murray has been much admired at opera houses elsewhere in Europe, in England she has been relatively neglected (a courious state of affairs due to be substantially remedied next season by appearances at Covent Garden in both *L'Enfant et les Sortilèges* and *Cosi fan tutte*). At present she is known from her occasional orchestral appearances, and in London perhaps best of all as one of the key members of the Songmakers' Almanac. With that team she has become a familiar figure in the Wigmore Hall: but last Saturday's recital, appropriately accompanied by the Almanac himself, Graham Johnson, was in fact her solo recital debut

It was precisely that recital which from time to time, after a surfeit of Almanacs, there has been the most powerful desire to hear: a programme sung entirely by Miss Murray, during which her excellent accompanist, however overwhelming his need, might not be permitted to utter a single word. It is a remarkable voice: clear, flexible and finely coloured. Like the musical manner, it is beguiling for its very simplicity and unpretentiousness. The technique is exceptionally firm—but it is not a voice dominated by technical concerns; the impulse and the freshness remain.

Miss Muray's range is really that of middle soprano: but she is a mezzo in so far as she is undoubtedly at her easiest, and finest, in the middle ranges both of pitch and expressiveness. Just occasionally in the highest fortissimo registers her tone widens and loses focus, at all other times it is splendidly even. She has no need of half-voice: the sighing falls of Schubert's *Litanei* could be smoothly modulated down to a full and beautifully ringing pianissimo. Her tone-painting in Schumann's four Hans Andersen songs was contrived with exquisite naturalness—the tiny tone-forcings in "Der Spielmann" seemed no more than the human colours of an unusually powerful and dramatic canvas.

The simplest and most intimate songs nonetheless touched most warmly: the last of Strauss's three Ophelia songs perfectly translucent; Poulenc's magical *Cocardes* and *La Courte Paille*, spun soft as silk, deftly humorous. There are as many different ways of singing Cole Porter as there are Cole Porter songs — and Miss Murray's does as nicely as any. Of the five she gave, "I'm only an innocent schoolgirl" was almost exactly right: very naughty, very prim.

New chamber orchestra for London

Musicians of London is a 28-strong chamber orchestra which makes its solo debut in May at the Barbican. Brian Wright, the conductor, founded the orchestra to play for chamber choral concerts promoted by some of London's leading choral societies. In May it appears for the first time in a series of concerts promoted by the orchestra itself.

Singers of London, an amateur choir of 60 voices, has been formed to sing with Musicians of London. Its members coming from the three main choirs

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Music

March 25–31

ZURICH

Tonhalle: Rudolf Buchbinder, piano. Schubert and Beethoven (Tue): Tonhalle Orchestra and Gemischter Choir conducted by Raeto Tschupp. Brahms German Requiem (Thur, 8.15pm and Fri, 4pm).

VIENNA

Musikverein (658 190): Alfred Brendel, piano. Beethoven sonatas (Mon).

Konzerthaus (721 211): Concertgebouworchester Amsterdam, conductor Nicolaus Harnoncourt. Bach's St Matthew Passion (Tue and Wed).

LONDON

London Philharmonic Orchestra conducted by Klaus Tennstedt with Lucia Popp, soprano and David Geringas, cello. Strauss. Royal Festival Hall (Mon) (928 3191).

London Symphony Orchestra and chorus conducted by Claudio Abbado, Edward Downes and James Judd with Shirley Verrett, mezzo-soprano. Stockhausen's Gruppen and Brahms Alto Rhapsody and St. Anthony Variations. Barbican Hall (Tue, 8.30pm; Thur, 7.15pm) (638 8891).

City of Birmingham Symphony Orchestra conducted by Neeme Jarvi with Shura Cherkassky, piano. Mendelssohn, Saint-Saens and Strauss. Royal Festival Hall (Tue).

Academy of Ancient Music directed by Christopher Hogwood with soloists including Emma Kirkby, soprano. Handel's Messiah. Royal Festival Hall (Wed).

LSO Brass Ensemble conducted by Edward Downes. George Lloyd and Gabrieli. Barbican Hall (Wed).

Alfred Brendel, piano. Beethoven sonata cycle. Queen Elizabeth Hall (Wed) (928 3191).

London Philharmonic Orchestra conducted by Klaus Tennstedt. Mahler 6. Royal Festival Hall (Thur).

London Soloists Chamber Orchestra conducted by David Josefowitz with Raphael Wallfisch, cello. Haydn and Tchaikovsky. Queen Elizabeth Hall (Thur).

Ronnie Scott's Frith Street: Trumpeter Freddie Hubbard and his quintet.

NEW YORK

New York Philharmonic Rafael Kubelik conducting with Richard Brunner tenor, Richard Cassilly tenor, *John Cheek bass. Janacek: From* the House of the Dead, U.S. premiere in new translation by Yvetak Synek Graff and Robert T. Jones (Tue): Zubin Mehta conducting. Wagner, Bruckner (Thur) Avery Fisher Hall (874 2424)

Carnegie Hall Krystian Zimerman piano. Brahms, Szymanowski, Chopin (Wed); Emanuel Ax piano. Yo Yo Ma, Duo performance of Beethoven & Brahms (247 7459).

WASHINGTON

National Symphony Mstislav Rostropovich conducting. Barber, Prokofiev, Tchaikovsky (Tue); Wagner, Prokofiev, Barber, Moussorgsky/Ravel (Wed mat); Barber, Prokofiev, Shostakovich (Thur). Concert Hall, Kennedy Center (254 3776)

CHICAGO

Chicago Symphony: Sir Georg Solti conducting Mozart, Bartok (Thur). Orchestra Hall (435 8122).

PARIS

Renata Scotto Recital (Mon) Theatre de L'Athenee (742 6727).

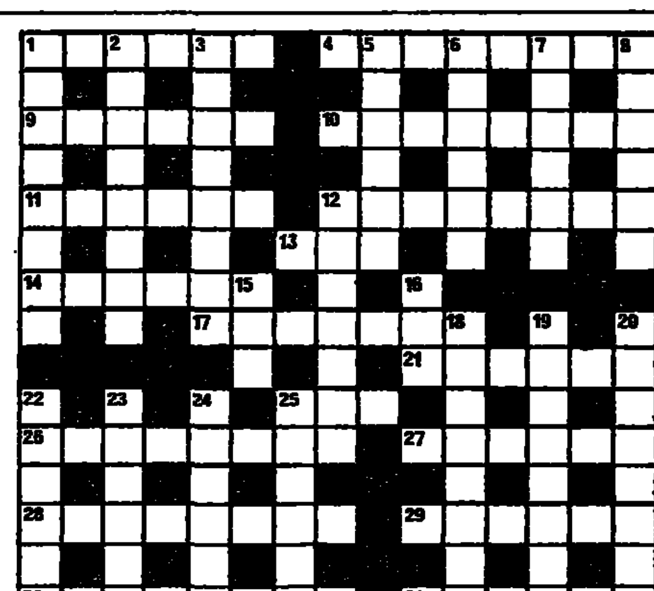
Nouvel Orchestre Philharmonique with Jacques Vandeville, oboe: Krommer (Tue) Salle Gaveau (563 2030).

Peter Frankl Recital: Mozart, Brahms, Chopin, Schumann (Tue) Theatre des Champs Elysees (723 4777).

Radio France – Orchestre National de France conducted by Michel Plasson. Deszo Ranki, piano: Andre Bon, Schumann, Moussorgsky-Ravel (Wed) Theatre des Champs Elysees.

Orchestre National de Lille conducted by Jean-Claude Casadesus. Philippe Biangoni, piano: Weber, Schumann, Casadesus, de Falla (Thur) Theatre des Champs Elysees.

F.T. CROSSWORD PUZZLE No. 5,133



ACROSS

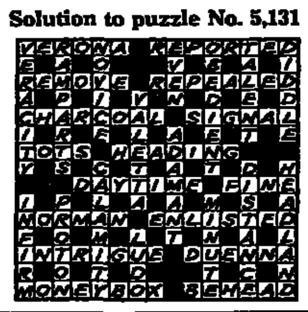
1 Isaiah and Irving—capital! (6)
4 Related appeal for silence to Brigs—capital! (8)
9 Nothing, little flower, returns—capital! (6)
10 A light on forged coin—capital! (8)
11 Right replaces left in pestilence—capital! (6)
12 Garment sounding more foolish? Capital! (8)
13, 25 Sort of reaction to Heath being destroyed by fire? (6)
14 Detective inclined to hustle (6)
17 Are you embraced by a man with a white rose? (7)
21 Half a laugh's uncommon—capital! (6)
25 See 13 across and 15 down.
26 Knowing one's place, as it were, one tried to adapt (8)
27 Turn pink, for example? Capital! (6)
28 Is able to go wrong in a degree—capital! (8)
29 Two at a twist—capital! (6)
30 King in West London suburb, a feeble man (8)
31 Stick a bill on this board? (6)

DOWN

1 A number of beasts get in, however—capital! (8)
2 Two in danger given fresh support (2-6)
3 Wickedness is trendy: I give up and you start (8)
5 Put in a pole, not moving about (6)
6 Most sensible South African birds' home (6)
7 An area, probably far (6)
8 Abolish, without its beginning, a book or a plant (6)
12 Where Henry Ford's history sleeps? (4, 3)
15, 25 across Laughed loudly at sequel to Sutton and Heath (6)
16 Tree for tray (3)
18 Story noted, without love, but with gifts (8)
19 I'm going out with Valerie, to prove true (8)
20 Sounds like a pretty girl entertainer—capital! (8)
22 Doctors are intimidating—capital! (6)
23 First verse upset girl—capital! (6)
24 French article on Spanish *football club is bogus* (6)
25 Rat confused with hen—capital! (6)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday

Solution to puzzle No. 5,131



FINANCIAL TIMES
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Kohl's policy consensus

DR HELMUT KOHL has made a good start to his second term as West German Chancellor. Having smothered a half-hearted bid for more power from Herr Franz Josef Strauss, the Chancellor is in a stronger position than any of his predecessors for a long time. With *his coalition parties,* he has comfortable majorities in both houses of the Bonn parliament and among a majority of the federal states. From this position of strength and making use of his tactical skills, Herr Kohl has secured agreement to an outline programme of coalition policies which is marked by moderation and is only slightly right of centre.

The foreign policy section of the agreement admittedly is vague and will have to be spelt out in more detail when a formal statement is made to the Bundestag late in April. But the reappointment of the liberal Foreign Minister, Herr Hans-*Dietrich Genscher, will assure* continuity. Of Bonn's devotion to Nato there is no doubt despite occasional irritants. The same is true of the European Community, in spite of last week's row with France about parities within the European Monetary System.

An attempt from the Right to water down German solidarity with western opposition to *apartheid* in South Africa was *defeated. So were some of the* more drastic suggestions for reducing the number of foreign migrant workers in the Federal Republic.

Real growth

The intention of the coalition to rein in public spending and to reduce the budget deficit is sensible. Events so far have shown that it can handle this problem with less acrimony than its Free Democratic-Social Democratic predecessor. But success in this area hangs upon the hoped-for economic improvement proving more than a flash in the pan.

On the opposition benches, the Social Democrats will have to define their future position in German politics. Herr Hans-Jochen Vogel, their leader who fought a plucky election campaign, is not really a man of the Left. But he did shift his party to the Left during the campaign. Subsequently the right wing took a battering in the elections to the executive of the parliamentary party.

It remains to be seen whether that portends a lasting shift away from the consensus that *has characterised German poli*tics ever since the Social Democrats dropped Marx some 20 years ago. The choice before the Social Democrats is whether to go into opopsition against the consensus system in league with the Greens; or whether to appeal to the Greens' following in the country by adopting some of their causes without over-stepping the limits of moderation.

The latter would be in the historic tradition of the Federal Republic. In its early years Dr Konrad Adenauer, the first Chancellor, took the parties of the Right into his embrace and throttled them. During much of the 1970s, Herr Helmut Schmidt, the right-wing Social Democrat, kept the Left under control, *though* with ever-increasing difficulty.

Nostalgic

By adopting a centrist position, Dr Kohl has fitted himself into that traditional pattern. Events have *so* far proved him right. How matters continue will depend greatly on the extent to which he and the German economy can adapt to changing times without surrendering the essentials of German strength.

It is not too fanciful to interpret the election of March 6 as a vote for the Good Old Days when growth was almost automatic; when unemployment was negligible; and when Japanese competition could be dismissed with a patronising smile. The need to live up to such nostalgic expectations will tax Dr Kohl and, even more, German industry. If the durable economic upswing does not materialise, it is not only the budget that will cause headaches. With 2.5m people at present out of work, the social security funds are already under strain.

At present the economic indicators are set reasonably fair. Dr Kohl's victory at the polls encouraged a thoroughly buoyant mood in industry. But good though its performance has been during the 1970s, German industry—like much else in Germany—has yet to show that it has adapted to a changed world.

Curbs on the tax collector

THE ENFORCEMENT powers of the British tax authorities, which are more extensive in some respects than those of the police, tend to generate considerable heat among small business supporters of the present Conservative Government. At the other end of the political spectrum tax avoidance has come to enjoy an important place in left-wing demonology.

It is a moot point, however, whether the issues of avoidance, evasion and enforcement—which are often discussed under the umbrella heading of the black economy—really merit all the attention they receive. What exactly is at stake?

In crude economic terms, the scale of economic activity not *disclosed to the revenue* authorities has been variously estimated at between 2 per cent and a very wild-sounding 15 per cent of gross domestic product. Before the Public Accounts Committee the chairman of the Board of Inland Revenue suggested in mid-1980 that a figure of 7½ per cent was reasonable. If this is correct it suggests that the fiscal system has sprung a £3-3½bn leak—sizeable enough *to be a matter of legitimate* concern to officials and public alike.

Yet that £3-£3½bn is a particularly recalcitrant nugget for the tax gatherer to extract in a cost-effective way. Indeed, if revenue raising were the chief objective the Chancellor would be better advised to mine the great open-cast territory provided by tax expenditures: the reliefs on pensions, life assurance and mortgage interest alone cost £4-£5bn a year.

Social cost

There is, moreover,a potentially high social cost in launching a vigorous assault on moon*lighting. The black economy* effectively acts as an alternative social security system—however arbitrary the distributional impact on incomes—in Britain's depressed regions. Hitting it hard now could simply create a different set of equally costly problems.

As for tax avoidance, the problem has been cut down to size since the law lords adopted a tougher approach last year to tax schemes involving transactions with no commercial purpose other than avoidance of tax liability. The market in highly artificial tax avoidance schemes is thus pretty near dead.

In short, the economic issues are less pressing than might appear at first sight. The problem for the Government is rather to steer the right political course between the need to discipline the negligent or criminal, and to preserve personal freedoms; or, more tangibly, to avoid both the laxity of, *say, the Italians and the* recent zealotry of the Swedish authorities.

On this score the initial report of the Committee on Enforcement Powers of the Revenue Departments, published last week, contains much comon sense. Echoing Burke's dictum that to tax and to please is not given to men, the five-man committee under Lord Keith of Kinkel adds that enforcement *powers are necessary not only* to coerce the dishonest and neglectful but to encourage worthier souls.

VAT frauds

The few occasions since 1976 on which the Inland Revenue has used its power to search under warrant for evidence of tax fraud have not, in the committee's view, amounted to an oppressive exercise of power. *It also argues that justified* complaints against VAT specialist investigators are few; searches under warrant have thrown up evidence of substantial VAT frauds more than nine times out of 10.

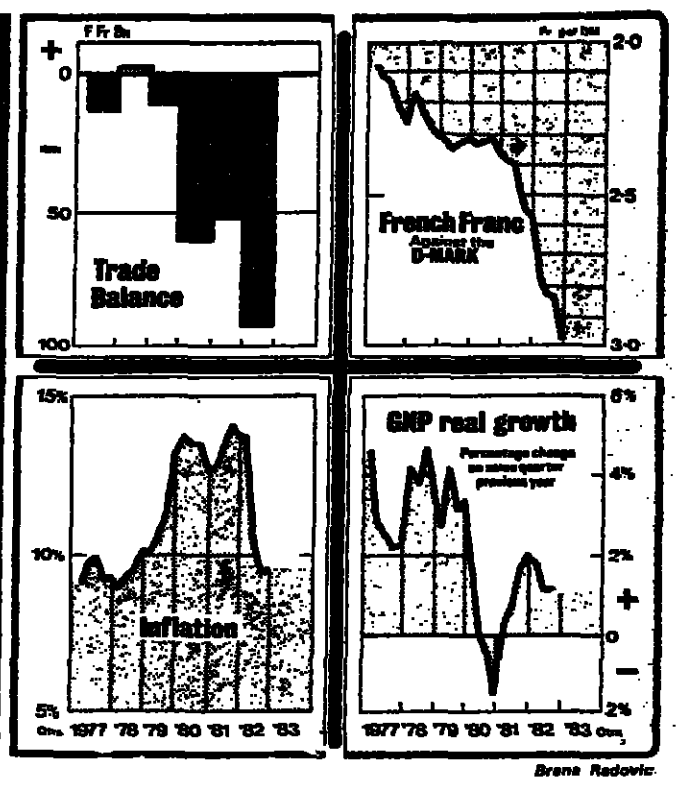
Lord Keith has, however, had the political nous to offer a sop to the small business lobby by suggesting that the Inland Revenue should pick on someone else by checking on secondary jobs and spare-time trading, even though the return on resources may not justify it, and, alongside numerous recommendations for harmonisation and clarification, he proposes a civil code to replace the use of *criminal sanctions for regula*tory matters, which would be supported by disclosure of the names of civil offenders.

In considering the report the Government should not, at any cost, ignore two general principles emphasised by Lord Keith: the scope for administrative discretion should be minimised and all enforcement should be subject to ultimate judicial control. In this, as in other areas such as immigration and social security fraud where political sensitivities are disproportionate to the actual numbers involved, such safeguards are a crucially-important constraint on the executive.

FRANCE'S AUSTERITY PACKAGE

Mitterrand's toughest gamble

By David Housego in Paris



Brana Radovic

THERE was a smile of almost triumphant satisfaction on the face of the official at the Elysée. "Now," he said "you see the shape of Socialist rigour."

Friday's package, sucking FFr 65bn (£6.14bn) or the equivalent of almost 2 per cent of GNP out of domestic demand, left no doubt at least of President Mitterrand's courage. There *has not been such a single mas*sive deflationary dose amongst the major governments of Western Europe since the 1966 measures of Mr Harold Wilson's Socialist government in Britain.

The most difficult part of the two years of hard slog that now awaits the French is that once again they will be rowing against the tide. In 1981 the government pumped the equivalent of 1 per cent of Gross National Product into the economy in an attempt to reflate it at a moment when the rest of the industrialised world was slipping back into recession. Now just as there are signs of recovery in the United States, Germany and Britain, the French economy will dip to virtually zero growth instead of the 2 per cent planned in this year's budget. And its rate could turn negative.

Taxes, which are falling elsewhere, will be going up in France. Unemployment, which the government has managed to stabilise over the last year, seems certain now to rise. French living standards, which *have risen almost uninterrupt*edly through the last 30 years of prosperity, will now decline —a drop of 0.5-1 per cent in real disposable incomes on official calculations. The French tourist abroad with only FFr 2000 a year in his pocket to spend will suffer the same humiliations that the British on a £50 travel allowance used to face in watching hotels and restaurants prefer the wealthier *visitors from the U.S., West* Germany or even France herself.

Thus the country that managed largely to dodge the painful consequences of both the first and second oil shock and which made an ill timed dash for growth in 1981 is now preparing to face the bill. The government's calculation is that belt tightening now will leave the econmy stronger in time for the next major electoral test in 1986 (the National Assembly elections).

But over the next two years of difficult recuperation, it will also inevitably leave France one of the weaker of the major economies, threatened internally by the possibility of social upheavals like those which in the past have accompanied unpopular measures. The package may also make her externally a more fractious partner in Europe and more aggressive in the defence of her interests.

The central gamble in M Mitterrand's strategy is that he can win the support of unions *and labour, for measures that* they would never have accepted from the previous government of Prime Minister Raymond Barre. Friday's package was designed very much with this in mind. Instead of raising social security contributions to plug the deficit in the social *security budget which would* have hit wage earners uniformly the government chose a 1 per cent rise in income tax with exemptions for the lowest paid. This falls heaviest on those in *the highest bracket. Equally the* new "forced" loan, payable in May and equivalent to 10 per cent of 1982 income tax payments, touches most the wealthy and those on middle incomes.

Other factors work in the government's favour. The French unions have been chastened by the massive rise in unemployment that they have seen in Britain, West Germany and the U.S. They have no wish to swap *M Mitter*rand for a government of the right.

But M Mitterrand's gamble is by no means won. Both the pro-Socialist CFDT union and the *Communist - led CGT (the* largest in the country) have given a critical reception to deflationary measures that they see threatening jobs and purchasing power. Worse is in store. The Government is to begin consultations with the unions over the next few weeks in an effort to bring down wage settlements next year to 4-5 per cent in line with the inflation target.

The unions have jibbed at this year's 8 per cent pay guidelines and workers at the Renault car group have already won a pace-setting 10 per cent award.

Also *on the agenda are dis*cussions with employers and unions over the financing of social security expenditures—a euphemism for the government's belief that France can no longer afford its existing level of welfare benefits—and the issue of the 35-hour week.

The risk of social explosion —it is unwise in France to forget the upheavals of 1968 or the violence with which steel workers in *Lorraine* attacked M Barre's plant closure plans in 1978—comes not only from the working class. There is a whole spectrum of retailers, blue-collar workers, executives, doctors, dentists, lawyers and self-employed businessmen who *already have demonstrated their* indignation at Socialist measures and who are the natural recruiting ground for "Poujadist" style movements or the demagoguery of M Jacques Chirac's RPR. They

They will also be hit by a further planned squeeze on their margins to reduce inflation. Indicative of their bitterness and anger was the telegram which M Edouard Leclerc, head of the Leclerc supermarket chain, sent the President on Friday. This called on Frenchmen to boycott the "forced" loan and "to take out all their cash from the banks before the government steals it."

Added to all this is the fact that rising unemployment has for the first time brought race hatred to the surface in France as reflected in the ugly campaigns against immigrants from North Africa that there have been in Paris, Marseilles or Dreux.

Maintaining this social peace while getting the French to accept sacrifices is an uphill task as both President de Gaulle and President Giscard d'Estaing found to their cost. And M Mit*terrand sets off on this road* with the authority of his Government much weakened.

Over the past two weeks of uncertainty—as the administration wrestled with the problem of an electoral rebuff, the devaluation of the franc and *its future in the European* Monetary System, the shift in economic policy and a reshuffle of the cabinet—the Government has seemed divided and uncertain in what direction to move.

M Mitterrand likes to create the impression of a man unhurried by the pressure of events. Instead he has seemed a rather isolated, ashen figure, closeted in the Elysee, and finding it difficult to maintain his moorings in a turbulent cross current of monetary and political pressures that seem to have caught him by surprise.

> He has seemed a rather isolated, ashen figure closeted in the Elysee . . . finding it hard to maintain his moorings.

M Pierre Mauroy, reappointed as Prime Minister, will not live down easily the warm hearted bravado with which before the elections he told Frenchmen that there would not be another devaluation, that most of the economic indicators were good, that "the major problems" are behind us and that the government had no austerity package up its sleeve.

But M Mitterrand has at least been able to build as broad a consensus around a deflationary package basically distasteful to the left as is possible. He got the Communists to accept it, *with M George Marchais, the* party leader, swallowing this 180 degree turn in policy and proclaiming publicly that "the *path chosen is good.*" The Communists retain four posts in the government—M Mitterrand never had any intention of kicking them out as the unity of the left remains as important to him as it did when he founded the Socialist party in 1971.

The radicals within the Socialist party have been felled for the moment *after* having lost the battle to pull France out of the EMS and to promote a protectionist policy of national independence. But M Mauroy is a more acceptable Prime Minister to them than M Jacques Delors, the increasingly powerful Finance Minister, who assures the credibility of the package abroad.

Even so the Socialist party is clearly in an unhappy state, its *leaders at odds, and with much* of the Socialist programme of two years ago buried by the recession (M Jean Pierre Chevenement its author and the former Minister of Industry is now out of the government). Nor is there any agreement on what should replace it.

The risk of outright opposition remains. But there are equally powerful factors holding the government to the wheel. The administration is now fully aware that anti-inflationary policies take time to show results and that the British, Germans and Americans have been at it for three-four *years. They are sensitive to the* charge that Socialist governments in France have no record of successful economic management and that they need to change this

Most important of all is the risk that with the foreign exchange reserves exhausted, continued borrowing at last year's pace would deliver them up to the IMF. For any government in France that al*most certainly spells death.*

Friday's programme certainly sets some tough targets. Cutting the trade deficit from FFr 93bn last year to about FFr 45bn this year will be difficult — the cumulative deficit for the first two months is already FFr 17bn — but not impossible. The official calculation is that the country can shed FFr 25bn as the deficit as a result of the reduction in domestic demand, FFr 15bn by bringing the economic growth rate below that of West Germany and FFr 5bn from the lower cost of oil.

The inflation target will be harder if only because it will require bringing wage rates *next year down to 4-5 per cent,* which at the moment looks out of the question.

But even if both goals are achieved another realignment of the franc within the EMS will be hard to avoid. France's inflation rate of 8 per cent at the end of 1983 will still be five points above that of West Germany — the governmen needs to find an adjustment mechanism that does not put *its political prestige at stake.*

Far more problematic is whether the economic strategy will suceed in restoring the competitiveness of French industry. The immediate impact will be to dampen output and thus add to overheads and costs. It remains to be seen whether the new Minister of Industry, M Laurent Fabius, will still follow the policy of propping up "lame ducks" or allow more redundancies in the steel, coal and paper industries.

The private sector meanwhile, is already looking for substantial relief from its heavy tax and social security obligations. Overall, these are now a massive 45 per cent of GNP.

In public the opposition has attacked the government's economic record. In private opposition leaders are rubbing their hands at the latest twist in events. They see a number of necessary measures that would have been difficult for them to put through and which will make the Left unpopular. They also believe that a Socialist-Communist coalition cannot in the last resort satisfy both the demands of the financial markets and their own rank and file. Hence the quiet *whispering campaign within the* RPR that the government will have no choice but to call early legislative elections if it is to avoid street demonstrations.

In wider European terms, M. Mitterrand has now made celar France's committment within the EMS. But clearly a weaker France is going to be a more difficult Community partner. M. Delors linked French demands over the realignment to *demands for a tougher EEC ex*ternal commercial policy towards the U.S. and Japan, resolving the Community disputes over agriculture and greater industrial co-operation.

M. Mitterrand also made clear at the Brussels summit last week that France will hang tough in negotiations over the British budget issue. The sacrifices being demanded at home mean sacrifices as well from *France's other European part*ners.

Men & Matters

Paradise returns

That flamboyant American with the big cigar and unforgettable name, Filmer M. Paradise, is renewing links with the European motor industry in which he was a familiar figure for 30 years.

Paradise left Talbot UK last May when his contract as assistant managing director (in charge of marketing and sales) came to an end. But he made it clear then that, though 63, he had *no intention of spending* the rest of his *life* playing golf. *"I have been too active. I miss* the 80-hour working weeks," he said.

Now he has joined the Economist Intelligence Unit as *consultant director to lead the* automotive consultancy team.

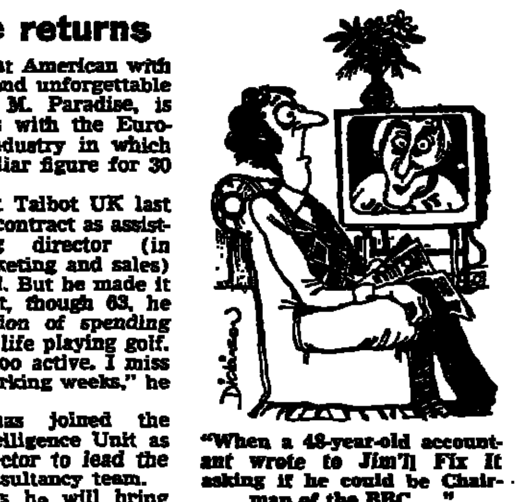
Paradise says he will bring a much more informal approach to consultancy, drawing on his vast experience in the motor industry—"a less mechanistic style than the 32-year-old Harvard-trained consultants."

Clients are likely to be dealer groups and car import organisations in the main, overseas as well as in Britain. Three quarters of the EIU's buisness is generated outside the UK and 90 per cent of the work of the consultancy team is for overseas clients.

An economist with degrees from the University of *Wisconsin and Harvard, Para*dise came to Britain in 1948 as an adviser to the U.S. Government's Marshall Aid plan.

Later he worked for Ford on the Continent before joining the old British Motor Corporation which he left in 1973 for a spell in Singapore with the Wearne Brothers' car retailing and assembly organisation. He was attracted back to the UK by his old friend George Turnbull, called in to run Talbot UK in 1979.

Paradise says that for much of his career he has been "an incipient consultant, because six of my jobs were clean-ups," including one where a managing director he replaced had consumed $30,000-worth of brandy on expenses.



"When a 48-year-old accountant wrote to Jim'll Fix It asking if he could be Chairman of the BBC . . ."

Bondman

Remember all those spy films set in eerie Central European hotel rooms? Well, here is the true life script for another one.

The setting is Vienna, the time a few weeks ago, the main *characters two high-powered,* top-salaried investment bankers from rival American investment bankers Salomon Brothers and Lehman Brothers.

Their mission: to win from the Austrian Government the mandate for a $150m Eurobond issue. At stake were both prestige and lucrative underwriting commissions.

In his hotel room, the man from Lehman is speaking in *hushed tones into the telephone.* At the other end of the line is a senior Austrian finance ministry official. A deal is being struck.

Suddenly the Lehman banker hears a sound outside his room. He puts down the phone and tiptoes to the door. Quickly, he yanks it open—and in falls, you guessed it, his arch-rival from Salomon. Our hero deals firmly with the intruder, returns to the phone, and clinches the deal for Lehman.

I knew the Eurobond market has its characters, but I didn't allow for Mr Bond himself.

True blue

Self-proclaimed Tories beware. The headmistress has just ruled against the current use of that collective label—inherited from past supporters of James II and George III and opponents of the 1832 Reform Bill.

In her speech to the faithful on Saturday, Mrs Thatcher said her party's opponents hated calling it Conservatives. "They refer to us as the Tory Party —with or without an adjective or two. Well, that is an honourable name, but it does not have the ring of Conservative," she declared.

Perhaps someone should have warned Chris Patten, the "wet" MP for Bath, whose book "The Tory Case" comes out in a fortnight. But then his vision of the Conservative/Tory Party is not quite the same as that of his leader.

Plants at work

Providing plants for offices is big business now in Britain. A recent article in "The Grower" estimated the turnover at £25m a year.

Frank Corrie, who gave up merchant banking to become a nurseyman in 1977, reckons modestly that he may take an extra *1 per cent* of that total this year by importing plans from Florida to give a more homely atmosphere to the offices of British-based U.S. companies.

Corrie's first consignment—including exotic - sounding varieties like pleomele reflexa and feifrizii—arrives at Heathrow Airport, London, on Wednesday.

Most of this first load is destined, ironically, for the offices of a Japanese company—Colt Cars in Cirencester.

But Corrie, whose Bristol-based Plants At Work operates mainly in the London-Southampton-Bristol triangle, says that his U.S. clients have shown enough interest to justify the venture and he has employed an American saleswoman to ensure that the plants are properly presented.

Individual plants can be expensive—up to £700-£800—but Corrie says the Florida varieties are grown specifically for office use, "not the overgrown house plants some European growers are providing."

And Americans are "much more sophisticated in their approach to interior plantscapes," he says. "We have to give them the service they are used to in the U.S."

Whiff of grape

Lonrho shareholders were primed on Friday for a renewed battle with Professor Roland Smith and House of Fraser with samples of a 1976 claret, Chateau Smith Haut Lafitte.

"Matured more quickly than at first expected," said the wine-merchant's brochure, ". . . best appreciated without further ageing."

"But there's very little of it left," Lonrho director Edward du Cann warned.

Hard to swallow

Heard about the young doctor whose wife refuses to take the pill? He complains she is practicising licence without a medicine.

Observer

FOREIGN AFFAIRS

A casual revolution in U.S. nuclear strategy

By Ian Davidson

IT IS now becoming lamentably clear that the Reagan administration remains as alarming as ever.

For a few months after Mr George Shultz joined the team as Secretary of State last sum- the volume control on the right-wing rhetoric started to be turned down, and it looked as though a larger measure of calm rationality would be applied to some of the most contentious issues facing American policy-makers.

But in the past few weeks the right-wing rhetoric has been wrenched right up again, culminating in President Reagan's defence speech on Wednesday night. So far from retracting any of his Manichean views about Russia being the focus of evil in the modern world, he seems incapable of tempering these views in the cause of better relations with Congress and with America's allies.

It is easy to guess at the thought processes which have led him to depict the Soviet threat in the most lurid colours. For the first time since World War II, anti-nuclear sentiment has started to gain a firm foothold in American public and political opinion. The House of Representatives has just rebuffed President Reagan by rejecting his request for a 10 per cent real increase in the 1984 defence budget, and by adopting instead a budget which would provide an increase of "only" 4 to 5 per cent in real terms. The Republican-controlled Senate has yet to pronounce, however, and President Reagan must hope that a scare-speech will at the last moment rally the required Congressional support.

It is much less easy to see why he larded this scare speech with a declaratory programme for the development of a new generation of high-technology weapons designed to destroy incoming Soviet missiles, with the objective of substituting a defensive for a retaliatory nuclear strategy. Naturally, there is a powerful emotional and moral appeal in the idea of a defence posture which does not depend on the threat to kill millions of people; there is a powerful appeal in the idea of a world without nuclear weapons.

The trouble is that Mr Reagan's vision is not likely to lead to a world without nuclear weapons. It is much more likely to lead to greater instability in the nuclear balance. And in the process of getting to his brave *new world*, Mr Reagan or his successors will certainly have to abandon the 1972 Anti-Ballistic Missile treaty, which is the lynchpin of existing arms control agrements between the U.S. and the Soviet Union. This was one of the points stressed by Mr Yuri Andropov in yesterday's Pravda interview.

The reason why defensive ABM systems can be destabilising, *as President Reagan admitted*, is that "if they are paired with offensive systems, they can be viewed as fostering an aggressive policy." If one superpower gets an effective defensive system before the other, it might believe it could launch an attack with impunity; the very attempt to acquire such a capability on a large scale looks like an aggressive policy, raising the spectre of pre-emptive attack by the other side.

The defensive-offensive problem was the subject of bitter debate in the U.S. In the late 60s and early 70s, with the ultra-right pressing for ABM development and the moderates arguing against it. In the event the moderates won, and their *victory was enshrined in the* 1972 treaty, which limited the super-powers to two ABM systems each, subsequently reduced in 1974 to one each. In practice the U.S., array at Grand Forks has been inactive since 1976, and there are doubts whether the Moscow system would be effective.

President Reagan has claimed that his *programme* would be consistent with the ABM treaty. This is hard to square with the words of the treaty, especially since the President's declared programme is much more sweeping than a system which would merely defend one group of missile silos.

The treaty says: "Each party undertakes not to deploy ABM systems for a defence of the territory of its country." (ABM systems must only be for local defence.)

The treaty says: "Each party undertakes not to develop, test, or deploy ABM systems or components which are sea-based, air-based, space-based, or mobile land-based." (Research is permitted, but development is not.)

The treaty says: "In the event ABM systems based on *other physical principles (than* interceptor missiles) are created in the future, specific limitations. . . would be subject to discussion."

President Reagan says his programme will pave the way for the elimination of nuclear weapons through arms control. This is a seductive picture, but highly misleading. It rests on two wholly implausible assumptions. First, that the U.S. would be able to claim with absolute certainty that its new defensive system would be 100 per cent effective; 99 per cent would not be enough. Second, that both super-powers would have equal confidence in the 100 per cent effectiveness of their defensive systems; for if the U.S. goes down *this road, the Soviet* Union will also.

Since neither assumption can be counted on, it follows that President Reagan's programme is tailor-made to lead to the pairing of defensive and offensive systems, which he admits is destabilising.

President Reagan's programme has been described by one strategic specialist as "the counter-reformation of the far right," which lost out in the ABM debate over a decade ago. But why he should have casually launched his visionary appeal for a fundamental revolution in American nuclear strategy, at this moment of all moments, passes comprehension — when his Government is trying to play an extremely delicate negotiating hand over Euro-missiles and when the parallel negotiations on reductions in strategic *long-range* missiles are virtually stalled.

Reagan needs only two things to get re-elected: an economic recovery, and an arms agreement with the Russians.

Part of President Reagan's problems lies in the inherent vulnerability of land-based inter-Continental ballistic missiles to attack by modern, ultra-accurate missiles with multiple warheads.

His Administration, like that *of Jimmy Carter before him*, has expended untold inventiveness trying to devise an *invulnerable basing mode for* the planned MX missile. All these efforts have so far proved vain, for a simple reason: given the accuracy of multiple-warhead land-based missiles, and given the preponderance of Soviet warheads on heavy land-based missiles, there can be no invulnerable basing mode for U.S. land-based missiles which is both technically plausible, economically *affordable, and* consistent with existing U.S.-Soviet arms control agreements.

Eventually Congress blocked all funds for the MX missile until a convincing basing proposal should be devised and at the beginning of this year the President set up a special commission, under retired General Brent Scowcroft, *to find* the crock of gold. But the *weeks have passed and still the* commission has not found it. According to the latest reports, it is being forced back on the simplest idea, which was proposed and rejected when the MX controversy began several years ago, to put the new missiles in silos which hold existing Minutemen missiles. This would not make MX invulnerable, but at least it would be plausible, affordable and consistent with arms control.

Some people would argue that American concern over the vulnerability of land-based missiles is absurdly overdone. The Russians may, in theory, have or acquire the capability to destroy all U.S. Minutemen in their silos. But it is completely unrealistic to suppose they could bring off such a feat in practice without causing so many millions of deaths in America that an annihilating reprisal by America's submarine-launched missiles would be a virtual certainty.

Moreover, the long-standing thrust of American strategic force deployment has been to *deal with the problem of land-*based vulnerability by going to sea. The U.S. has far more of its warheads on submarines than the Soviet Union does and when the new, super-accurate Trident D5 SLBM comes into service over the next decade, Soviet land-based missiles will themselves start to become vulnerable to American sea-launched weapons. Almost inevitably, the Russians, too, will have to shift progressively out to sea—unless President Reagan forces them into space.

President Reagan: turning up the volume on the right-wing rhetoric

President Reagan's latest notions for anti-ballistic missile weapons suggest either that he does not accept — or perhaps understand — the rationale for America's strategic force configuration, or else that he is imprisoned by the tried doctrine that America must have weapons on land, at sea, and in the air, and that he is mesmerised by the salesmanship of the weapons researchers in the Pentagon.

A couple of weeks ago, Gen Maxwell Taylor, a former U.S. chief of staff and a self-confessed hawk, caused a mild stir by attacking two central elements in the administration's strategic thinking: its obsession with having equal numbers of weapons to the Soviet Union, and its outdated adherence to the triad doctrine. Instead of worrying about how many weapons the Russians had, he argued, the U.S. should be thinking about how much *it needed to inflict* unacceptable retaliatory destruction, and then deploy these weapons in whatever mode was most reliable and most survivable. That would mean cancelling MX, and phasing out existing land-based Minutemen.

Dr Henry Kissinger, the former Secretary of State, has come up with a quite different recipe for the land-based missile problem. The U.S., he says, should make a fundamental decision to switch from multiple to single warhead missiles. Ideally this should be in the context of a U.S.-Soviet agreement for, say, 500 single-warhead ICBMs on each side. Failing an agreement it should be done unilaterally, with the U.S. deploying as many missiles *as the Russians had warheads.*

This is certainly a striking recantation from a man who helped preside over the dangerous development of multiple-warhead missiles. The trouble is that it would promise just another form of arms race, while sticking just as rigidly as the Reaganauts to the doctrines of the triad and equal numbers.

Official European reaction to the Reagan programme has been muted: Privately, however, it is regarded by one strategic specialist with alarm; by another, with horror.

If President Reagan stands again, he only needs two things to get re-elected: an economic recovery, and an arms agreement with the Russians. The recovery seems to be starting. But his *new defensive strategy* and his virulent anti-Sovietism not merely imply a whole new dimension to the arms race, but seem designed to undercut the very basis for arms control agreements with the Soviet Union.

Lombard

Sterling's fall does matter

By Samuel Brittan

IT IS SOMETIMES thought surprising that anyone who believes in the floating exchange rate should have a view on sterling. For there is the erroneous belief that the only way to influence the rate is by official intervention or by membership of a fixed exchange rate club like the European Monetary System.

The opposite is the case. No amount of intervention can save the currency where there is an underlying market trend against it. No official parity can survive if domestic policies are incompatible with its maintenance, as Sir Harold Wilson discovered in 1967 and President Mitterrand discovered more recently.

On the other hand a floating rate can and should be influenced by domestic financial policy. The exchange rate is the most important determinant of an individual country's rate of inflation, given the world rate.

The great advantage of a floating rate is not that the Government can ignore sterling but that its view of the appropriate rate can be determined by the circumstances of the time. There is no great difficulty in comparing sterling's fall with the devaluation proposed by Mr Peter Shore in his "Programme for Recovery," dated November 22, 1982. During the months before the statement, the trade-weighted sterling average had been hovering around the 92 mark. Mr Shore's programme contained a simulation of his "Preferred Programme" showing sterling falling to 78 in 1982, to 71 in 1983 and then gliding more slowly to settle at 64 in 1985. With *sterling now at 78*, the first half of Mr Shore's depreciation has already been carried out by the foreign exchange market.

The main objection to the Shore suggestion was—and still is—that a depreciation of that size and speed would (a) be very inflationary and (b) would be eroded by wage increases. Indeed the fall of the sterling averages to 80—the level just below that prevailing in February when the Budget forecast was prepared—represented a faster drop that would ideally be desirable. But as market movements take place in lurches rather than gradually, there was a case for accepting what had occurred, even though it meant a re-escalation of inflation to 6 per cent for what the Government hoped was a temporary period.

A drop in oil prices would reduce the world and UK rates of inflation for a while. The table takes some estimates of the effects of either an oil price or a sterling fall on inflation. The rough rule seems to be that oil has to fall by $10 per barrel to compensate for 5 per cent off the sterling average. Oil prices would thus have to fall by $7 a barrel to compensate for the 3½ per cent drop in sterling to 78 that has occurred since the Budget forecasts were prepared.

Of course these are only very rough orders of magnitude. But whereas nearly all the impact of a lower oil price on inflation comes through in the first year or two, a lower pound has a more powerful delayed action effect. The impact shown in the table represents mainly the direct effect of a lower pound on import prices. The full effect when all British prices are pulled up under the "Law of one price" would be nearly four times as large. Even on a nearer view there is a danger of the fall in sterling outpacing the actual oil price drop.

The Government must—and surely does—view any further depreciation with anxiety. To steady the rate the Government *must be ready to see interest* rates rise—the Budget day ½ per cent drop in base rate already looks a mistake. It would be a thousand pities if the Prime Minister's dislike of higher interest rates were to assume the proportions of President Reagan's dislike of higher tax and with equally unfortunate effects.

	Inflation Rate per cent per annum 1983-84
Official forecast	4
Effect of $10 fall in oil price	−1.3
Effect of 4 per cent fall in sterling	+1

Letters to the Editor

The black economy, enforcement powers and taxation

From Mr D. Franklin

Sir,—"A clamp on the black economy" (March 24) points to one of the largest growth areas of the British economy. The cause, however, and accelerating pace of this sector is due to a large degree to the fiscal policies of the Treasury which have been implemented by Governments over the past 30 years and which have been a progressive disincentive to taxed work.

The Chancellor in the Budget said that he would be proposing significant cuts in taxation but, as you put it so correctly in your columns "one has the impression he is defeated by the sheer complexity of the British tax system."

Marginal rates of tax have risen from 34.6 per cent to 57.5 per cent in five years and, for example, a single person earning £120 a week—which is costing the employer £136.47—now receives £82.48. After the Budget the benefit will be 0.97p if he neither smokes nor drinks and his total travelling is done on foot. If he lives at a fixed address which is not his home his net income by not working is £75 and it is not surprising that over the past six months the number of unfilled vacancies has increased and is now higher than in August 1980 when there were over 1.4m fewer unemployed.

But to express surprise at the rapid black economy growth is rather like encouraging someone to consume alcohol and express surprise at their total state of inebriation.

D. G. Franklin,
121, Kennington Road, SE11.

From the Managing Director, Tax File

Sir,—It is difficult to disagree with one finding of the Keith report (March 24) that enforcement powers are somewhat antiquated, have grown piecemeal and it is time for a spring clean to produce a modern system integrating the Inland Renevue and Customs and Excise.

But the main theme of the report is that the reporting system should be substantially tightened, the tax investigating force increased, its powers widened and heavier penalties imposed.

The proposals—they include Revenue "reporters" and pillorying some found guilty of tax offences through publication of names—need the closest scrutiny by the business community and its advisers. Many honest business people already find our tax legislation complicated, unfairly oppressive, time-consuming and expensive to administer. Surely the stated aim is to get the Government off the backs of these wealth producers.

Dennis J. Fowle,
4, Valentine Place, SE1.

Selecting a candidate

From Cynthia Brown

Sir, — In his article "Next round — Cardiff" (March 15 and the day of the selection meeting for the Conservative candidate for this vacant seat) your Parliamentary Correspondent said that Mr Gwilam Jones, chairman of the north-west Cardiff Constituency Party, was the undoubted "favourite" and, indeed, as predicted, he was duly chosen.

Now, for all I know, Mr Jones may very well have outstanding qualifications for Parliament, but I cannot believe that a seat of this sort did not attract a sufficient number of candidates of at least an equally high standard, as to make Mr Jones' selection so predictable.

Parochial service at local or county council level is not *necessarily a qualification for national* and international Parliamentary politics. A Parliamentary seat — or even the mere nomination for one — should not be the automatic reward for a local councillor, however long his service.

The Conservative Party's much-vaunted new selection procedure was intended to get rid of the "smoke-filled room" where political debts are paid off, and to ensure that the "best possible candidate is selected." Not "the best possible candidate, unless the chairman happens to want the job for himself."

This letter is no personal reflection on Mr Jones' no doubt excellent abilities. What I do call into question is your correspondent's assumption on the grounds he stated and without his knowing how the selectors would take to the other short-listed candidates, that the result was a foregone conclusion. On the other hand, as he was right, why bother with the ritual of selections?

Cynthia Brown.
9, Fronwen Terrace,
Ogmore Vale,
Mid Glamorgan.

Banning lead in petrol

From Mr M. Taylor

Sir,—According to Mr J. Richman (March 21) "No quantifiable benefits would be achieved from banning lead in petrol . . ." No statement would more vividly illustrate the gulf in comprehension between the 'pro' *and 'anti' lead lobbies.*

The argument against lead additives is social and medical rather than economic. Current evidence suggests that children in areas with higher levels of lead in the environment have higher concentrations of lead in their brains than children in 'cleaner' environments. That evidence also suggests that it is the lead added to petrol which constitutes the principal, if not only, source of lead deposited in brains.

Of course damage being done in the brains of children is an emotional topic, but the evidence remains, as do the facts that lead is a poison which the body cannot metabolise out, that lead in the brain has a seriously debilitating effect upon mental capacities, and that infants are most at risk. We see far more tenuous evidence resulting in the removal of pharmaceutical products from the market, yet lead remains.

I would not expect Mr Richman to accept this argument, but is every decision in our society made upon wholly economic criteria? Of course it is not, and this is one of those decisions in which the weight of any economic consequences is minimal. Perhaps if Mr Richman's children were more at risk than they thankfully are in that delightful area of Cheshire he would realise that there is no economic argument whatsoever that can justify taking risks with the health of our children.

M. Taylor,
Flat 2, 17 Hutchison Square,
Douglas, Isle of Man.

Architects at variance

From Mr D. Stanley

Sir,—I recently received the Royal Institute of British Architects case against the pressurised water reactor. It bore little relation to architecture, but a very close relation to the usual anti-nuclear scaremongering propaganda. The thought crossed my mind "How very unprofessional of the RIBA (Eastern Region)," as it seems highly likely that RIBA architects were paid to design Sizewell "B" in the first place.

D. E. Stanley.
Rose Villa
Tunstall, Woodbridge,
Suffolk.

NATO tactics under review

From Mr J. Silkin MP

Sir,—Your leader "Nato tactics under review" (March 17) is welcome not only for the way in which it shows how the impending deployment of Cruise and Pershing 2 Euromissiles has highlighted an even longer standing debate about the possibilities of a less nuclear-reliant strategy for the alliance but also for the manner in which it enhances that debate.

There may be some argument, as you indicate, about the timing and extent of the adoption of a wholly non-nuclear defence posture for Europe but there can be none about your assertion that "If the governments of Western Europe wish to recover a Broader consensus on defence policy they may have to look more seriously at the conventional options." Yet there is too little evidence of its acceptance in the current defence and negotiating positions of the British Government and none in the utterances of the Prime Minister on arms control.

While there may be disagreement in the Labour Party about how far the nuclear threshold can be raised by unilateral action, there is none about the urgent need to pursue the opportunities for conventional forces modernisation in Nato made possible by new weapons technologies.

John Silkin.
House of Commons, SW1.

Tax avoidance advice

From Mr P. Zatz

Sir,—In the article on stamp duty (March 22) a Minister of State at the Treasury is quoted as saying: "When the solicitor of a house purchaser slips up so that the tax has to be paid, it can create a lot of unhappiness."

What this means is that after seller and buyer have agreed on a price of, say, £28,000, the buyer's solicitor should advise him to insist on changing the agreed terms so as to apportion £3,000 to some over-valued "fixtures and fittings" in order to bring the whole transaction below the stamp duty level.

It says little for the legislation, or the Government's attitude towards tax reform, if a Minister of State can suggest that a professional person "slips up" if he does not advise his client to indulge in tax avoidance, however widely practised it may be.

P. S. J. Zatz.
17, Draycott Avenue, SW3.

FINANCIAL TIMES

Monday March 28 1983

ARAFAT IN RIYADH PRIOR TO TALKS WITH HUSSEIN

Saudis step in to peace equation

BY ROGER MATTHEWS, MIDDLE EAST EDITOR, IN LONDON

SAUDI ARABIA yesterday sought to influence the outcome of crucial Middle East peace talks due to be held this week between King Hussein of Jordan and Mr Yassir Arafat, the chairman of the Palestine Liberation Organisation (PLO).

Mr Arafat flew into Riyadh unexpectedly yesterday for talks with the Saudi leadership. He is due to go on to Jordan today where he will give King Hussein his response to a call that the PLO co-operate with President Reagan's proposals for settling the Palestinian problem.

The U.S. has been urging King Hussein to declare his provisional willingness to negotiate with Israel over the future of the occupied West Bank and Gaza. President Reagan has proposed that after an Israeli withdrawal the Palestinians living on the West Bank and Gaza should get self-determination but only in association with Jordan.

Saudi Arabia drafted the eight-point Arab peace plan approved at last autumn's summit in Morocco which calls for an independent Palestinian state.

King Fahd of Saudi Arabia is understood to be sympathetic to the Reagan proposals but doubts whether the U.S. has the political determination for what would undoubtedly be a bruising battle with the Israeli Government.

Prince Saud al-Feisal, the Saudi Foreign Minister, held talks with King Hussein in Amman on Saturday and delivered a message from King Fahd.

American officials have made it clear to Arab leaders that time is running out for the Reagan initiative and a refusal by King Hussein to become associated would be likely to provoke its collapse.

Washington is prepared for King Hussein to state that his willingness to enter negotiations is dependent on an Israeli withdrawal from Lebanon and a freeze being imposed on new Israeli settlement building in the West Bank and Gaza.

Mr Philip Habib, the U.S. Middle East negotiator, has stepped up his efforts to secure the withdrawal of all foreign forces from Lebanon and after a meeting in Beirut with President Gemayel went on yesterday to Jerusalem for further talks with Mr Yitzak Shamir, Israel's Foreign Minister.

Saudi Arabia, already deeply concerned by the Gulf War between Iran and Iraq and threatened by the risk of an oil price war, is anxious to avoid a more damaging split in the Arab world over the Reagan plan.

More radical Arab countries have warned Jordan against co-operating with the U.S. and President Hafez al-Assad of Syria, who exerts powerful influence over both the PLO and events in Lebanon, emphasised yesterday the strength of his relations with the Soviet Union.

"Imperialism and Zionism will never frighten us. We shall struggle as hard as we can against American and Israeli schemes in the area and we shall make sure that these schemes fail," he declared.

David Lennon adds from Tel Aviv: The Israeli Cabinet remained pessimistic yesterday about the prospects for a breakthrough in the negotiations on an Israeli withdrawal from Lebanon, despite the willingness of its ally, Major Saad Haddad, to step down as commander of the South Lebanese militia if this would help bring about agreement.

There is increasing frustration in Jerusalem over the lack of progress in the negotiations with Lebanon, even though Israel has already dropped two of its key conditions. Having given up its demand for permanent military garrisons and joint Israeli-Lebanese army patrols in southern Lebanon, Israel had expected a speedy conclusion to the talks.

But after three months of negotiations, the sides are still far apart on the question of the security arrangements in southern Lebanon after the withdrawal of the Israeli forces.

Japan eases import measures

By Charles Smith in Tokyo

JAPAN has made it easier for foreign manufacturers to introduce their products to the Japanese market. The inner economic cabinet gave formal approval on Saturday to a series of measures designed to simplify dramatically procedures for testing imported manufactures.

The measures call for changes in 17 laws setting safety and health standards for various categories of imports. They also provide for much greater flexibility in the acceptance by Japanese testing authorities of other countries' data and for greater transparency in the government's decision making processes.

A final section of the package commits Japan to co-operate more actively than it has done hitherto with a number of international study groups which have been working on the harmonisation of testing procedures.

The new package reflects the results of two months of study by a "Liaison Headquarters" (consisting of senior officials from five ministries) which reported directly to Mr Yasuhiro Nakasone, the Prime Minister.

More than 30 laws were studied by the Liaison Headquarters but just under half the total were judged to be free of any features discriminating against foreign goods. A bill amending the remaining seventeen laws is to be submitted to the Diet and should be approved before the current session ends in late May.

Apart from the legislative proposals which form the first leg of the new package the Government has announced plans for publishing a directory of administrative procedures relating to standards aimed at helping importers to spot any impending changes in the regulations.

Another important proposal provides for overseas manufacturers to apply directly to the various Japanese ministries concerned to have their goods tested. Until now only importers based in Japan have been allowed to submit such applications.

In addition to general overhaul of the legal and administrative provisions relating to import testing, the Liaison Headquarters came up with proposals to simplify testing requirements for five specific categories of goods – cars, pharmaceuticals, cosmetics, medical devices and home electric appliances.

The new proposals for cars are expected to cut by nearly two-thirds the amount of time needed for an overseas manufacturer to obtain "type designation" (general approval for the import of a specific model).

Under the old rules foreign manufacturers were required to submit a total of three cars for inspection by the Japanese authorities but from now on one new model will suffice. Durability tests which were previously conducted in Japan will be waived and test data submitted by the exporter will be accepted instead.

The changes in test requirements for pharmaceuticals include acceptance by Japan's Ministry of Health and Welfare of foreign data for all types of preclinical tests. Clinical tests (i.e. tests on humans) will however continue to have to be conducted in Japan.

In the case of both pharmaceuticals and home appliances the new package abolishes a long standing ban on the transfer of import approval certificates obtained by one importer to another company selling the same products.

In announcing the new package of measures over the weekend the Foreign Ministry claimed that Japan is the first major advanced country to undertake a "spontaneous" reform of its own testing and certification procedures.

The Ministry hopes that the measures will improve Japan's image with its Western trading partners

EEC curbs lift Japanese VCR prices, Page 6

THE LEX COLUMN

A dense fog over the North Sea

Stockbrokers' computers have been whirring overtime in recent weeks to help analysts of the North Sea oil sector keep abreast of their subject. The main variables affecting the sector have all been shifting, radically changing the basic economics of the North Sea industry in several important respects and multiplying the many imponderables facing every participant, from the majors like BP and Shell to the smallest exploration companies. Erratic share movements in the sector have reflected the absence of any real consensus about the new environment, though some pattern is now beginning to emerge.

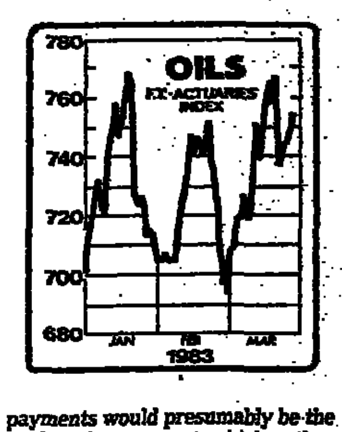
Conundrum

As if the quandaries surrounding Opec, the dollar/sterling rate and the budget's tax concessions were not sufficient, another conundrum has arisen in only the last few days over the relationship between BNOC and its North Sea oil suppliers, which must sell 51 per cent of their oil to the state-owned company. This week should see BNOC and its customers progressing towards a new posted price, to replace the ill-starred $30.50 which it floated just before Opec's pricing marathon. But a question mark clearly hangs over BNOC's contractual right, having agreed such a revised price, then to apply it retrospectively in its dealings with the suppliers.

Probably BNOC feels that, in the present market, suppliers ought to rest content with the informal warnings it has given that the prevailling $33.50 price has been distinctly provisional since February 1. But previous retroactive pricing has at least been contained within a single 30 day payment period. More important, it has always referred back to a trigger date formally notified to each party at the outset.

The suppliers claim to have received no formal trigger date nor any price proposal as yet, hence the industry's disquiet about a lower price, say $30.50 being imposed with effect from February 1.

With the notable exception of Tricentrol, the companies involved are not keen to pick a fight with their main customer in public. But the legal issues appear substantial, as indeed are the figures. The $3 discrepancy, applied to the 53 days since February 1, implies a potential rebate to BNOC of $190m – though a clawback reduction from future



payments would presumably be the preferred repayment vehicle rather than a physical rebate.

Whether $30.50 will be the actual revised price, of course, is another matter. Probably the Nigerians would accept a reduction to $30, equal to the latest price of their own Bonny light crude. But BNOC knows $29 – $29½ per barrel is the more appropriate price for North Sea crude, politics apart, and must now gauge the risks of stepping at least partway down to this level. Meanwhile, it continues to sell an undisclosed portion of its product in the spot market, at about $28 per barrel.

For Britain's North Sea companies, the dollar price continues to be seen through the distorting mirror of an ever-weakening pound. With sterling at $1.45, a price of $33.50 implies over £23 per barrel – easily the peak achieved in sterling terms to date. At this currency exchange rate, BNOC's crude price could fall as low as $27.75 and still leave the producers enjoying last summer's sterling price of a little over £19 per barrel.

The cash flow benefits of the budget's North Sea tax adjustments count for a large part of the aggregate blessing bestowed by the Chancellor on the sector. The phasing out of Advanced Petroleum Revenue Tax starting in the second half of 1983 – nicely timed to withhold any benefits from the Brent field, where the producers will be starting to pay full PRT just then – implies savings which must be added to the more straightforward tax concessions associated with offsettable appraisal drilling costs, increased allowances against PRT and the like.

Quantifying the sum total in broad terms, brokers Wood MacKenzie have equated the fiscal effect of the budget on the North Sea's economics with the impact of a rise in the dollar price of crude to $40 per barrel. This applies only in the case of the New Fields – that is those receiving approval for Annex B submissions after April, 1982. Given the fall in many operating costs over the last year – daily rig hire costs have fallen from about $80,000 to about $30-35,000 – their return, as it were, to the headiest days of the oil price boom marks a signal development.

The distinction between the fields is crucial, with established fields like Brent or Forties reaping little benefit. Immediate gains should accrue to at least two existing projects – North Alwyn and Clyde – while Wood Mackenzie say the new tax incentives for exploration companies should liven up the outlook for four prospects in particular: Balmoral, North Brae, East Forties and the Don Field.

Exploration

A precise measurement of the eventual gains is not possible though isolated figures are suggestive. Lasmo, for example, anticipates £28m of exploration and appraisal costs in 1983, all of which will now be chargeable against PRT this year or next regardless of drilling results. Premier Consolidated Oilfields, one of the sector's purer exploration operations, has doubled its prospective exploration budget – adding back, in fact, what it lopped off when the Exchequer introduced the Special Petroleum Duty now abolished.

One assessment of the gains, by brokers Scott, Goff, Hancock, is that they may add 10–15 per cent to appraised net asset values of many companies in the sector. But a revival of enthusiasm for much of the sector since the budget has still left most of the independent producers trading at 30–50 per cent discounts to asset value.

The medium and smaller independents have generally well outperformed the FT-All Share Index since their pre-budget closing, with some like Goal Petroleum staging a strong recovery. But the pure exploration companies have conspicuously fallen back.

The market's valuation accurately reflects the relatively less advantageous tax position of these companies on their own. But it may not yet have discounted the potential tax attractions of the exploration companies for predatory groups with established production.

Rolls loses as aircraft market nosedives

By Andrew Fisher in London

THE COLLAPSE in world demand for new aircraft pushed Rolls-Royce, Britain's state-owned aero engine maker, into a sharply increased net loss of £130m ($190m) last year.

The company, which has been reducing its workforce considerably, will announce the loss this week. It compares with £3m in 1981, much reduced from the previous two years.

News of the severe deficit comes shortly after Rolls-Royce announced its participation in major engine supply and development programmes.

Together with Pratt and Whitney of the U.S. and five other engine manufacturers, it signed a deal two weeks ago which could lead to a $1.5bn investment in developing and building a new engine.

Rolls-Royce will also supply 200 of its new Tay jet engines to Gulfstream Aerospace of the U.S. for a business jet aircraft. The contract is worth $300m.

It had become clear in the past few months that Rolls-Royce was heading for a further and higher loss. Redundancies are still running at a high level; with about 6,000 more due to occur this year.

The company had hoped to build about 300 of its powerful RB-211 engines last year, but made fewer than 100. These engines go into Boeing 747s and 757s. They equipped Lockheed's Tristar until the U.S. manufacturer decided to stop production over a year ago.

The heavy losses will clearly put privatisation of Rolls-Royce, which was brought into the state sector in 1971 after bankruptcy, even further into the distance.

The UK Government has already stated that a sale to private investors was a long-term objective. Because of redundancies and changes in work practices, productivity has improved. But slack order books will mean another tough year in 1983.

Managua may withhold $48m debt repayment due in June

BY WILLIAM CHISLETT, RECENTLY IN MANAGUA

NICARAGUA may fail to make a $48m debt repayment to its international bank creditors in June unless the Reagan Administration stops pressuring U.S. commercial banks not to lend new money to the left-wing Sandinista Government.

This was stated in an interview by Doctor Sergio Ramirez, a member of the three man junta of the Central American Republic.

He said that U.S. banks, who are owed the great majority of Nicaragua's $920m commercial bank debt, made a verbal commitment last December, when the Government made its last debt repayment to them, to provide a $30m credit to finance exports. But the loan had still not been made available.

"If the banks cannot keep their word of honour then why should we," said Dr Ramirez.

Bankers, however, say the reason for not making the loan is more economic than political, as they are uneasy about the whole of Central America.

The loan would be guaranteed by the Nicaraguan Central Bank and repaid from export receipts.

Last week, Nicaragua made its strongest accusations yet against the U.S. for backing a counter revolutionary movement to topple its government. The Sandinistas came to power four years ago after overthrowing the U.S. backed right-wing dictatorship of Gen Anastasio Somoza.

In recent weeks, Nicaragua has come under increased attack from former national guardsmen who have penetrated Nicaraguan territory from their sanctuary in neighbouring Honduras.

Dr Ramirez's warning underscored the delicate state of the Nicaraguan economy which is bogged down by a total external debt of $2.8bn, low prices for its commodity exports and the cost of meeting its defence and basic economic needs.

Meanwhile, Spain's Socialist Government has said it is willing to extend credits worth up to Pta 6bn ($45m) to the Sandinista Government, according to reports from Madrid.

Bitter fighting continues, Page 2

UK Alliance sees support slip

BY PETER RIDDELL, POLITICAL EDITOR, IN LONDON

ELECTORAL SUPPORT for Britain's Social Democrat/Liberal Alliance has fallen sharply in the wake of the Social Democrats' poor result in a key by-election in the north-eastern town of Darlington last Thursday.

The SDP candidate finished a poor third behind Labour, which retained the seat with an increased majority, and the ruling Conservatives.

An Opinion Research poll on Friday gives the Conservatives 43 per cent, Labour 35 per cent and the Alliance 21 per cent. This compares with peak Alliance support of 34 per cent in early March. The poll's significance should not be exaggerated in the immediate aftermath of a by-election, but it underlines the Alliance's current problems.

Post-mortems are due on Wednesday when there are meetings of the leaders of the parties and jointly of the Alliance Members of Parliament.

Liberal disquiet surfaced at the party's national executive on Saturday when criticisms were expressed about the SDP's poor tactics and lack of cutting edge in Darlington. There will be demands for closer consultation in the Cardiff North West by-election, expected on May 5.

The main immediate focus is on who will be the Alliance's candidate for Prime Minister.

The question seems more open than it was. The understanding up to now has been that Mr Roy Jenkins of the SDP would be the joint candidate and that issue would be resolved before too long. Supporters of Mr David Steel of the Liberals want the issue to be more long drawn-out, in the hope that Mr Jenkins might be won round to agreeing that Mr Steel is the right person.

Saudis tighten up on 'local content'

BY OUR MIDDLE EAST EDITOR IN LONDON

SAUDI ARABIA announced yesterday that foreign companies which won development contracts would have to give at least 30 per cent of the work to local companies and use Saudi banking, insurance and other services.

Sheik Mohammed Abal-Khail, the Minister of Finance and National Economy, told the Saudi Press Agency that all contractors must also purchase equipment through local agents and use Saudi transport companies.

Representatives of foreign contractors in Saudi Arabia said last night that they believed that the new regulations would have little practical effect.

"This is just the formalising of a situation which already largely exists. What the Minister has said only reflects a trend which has been well established for some time," said one company representative.

Another pointed out that the new measures merely brought together prior administrative decrees. "It is essentially a restatement of present practice," he said.

"It will not have any practical effect on our work here nor will it in any way hinder or alter our attitude towards winning further development contracts in the Kingdom."

British recovery hopes

Continued from Page 1

to start moving upwards again in 1983 is the fact that new optimism about improved output is not matched by expectations of higher average prices. About two-thirds of the companies expect prices to remain about the same for the next four months, and only a third expect higher average domestic selling prices, a low proportion historically.

The survey results are compatible with the CBI economic forecast revised after the March 15 budget, which indicate the British economy as a whole picking up with modest growth in gross domestic product of 2 per cent in 1983 and 2½ per cent in 1984. Manufacturing output would rise 2¼ per cent this year and 3½ per cent next on this forecast.

Fixed investment in manufacturing industry is forecast to fall a further 3¼ per cent this year (after a 7¾ per cent fall in 1982) but then rise 7 per cent in 1984.

Fixed investment in manufacturing industry is forecast to fall a further 3¼ per cent this year (after a 7¾ per cent fall in 1982)

New Liffe contracts

Continued from Page 1

Board of Trade followed with interest rate futures two years later. It took the two until 1977 to reach a combined annual volume of 1m contracts.

But some Liffe members point out that Chicago's pioneering role meant it took on the job of educating potential customers on the possibilities of financial futures. The concept has not been around for more than 10 years.

"The time scale is longer than we envisaged," said one UK money broker. "We originally thought in terms of six months to get Liffe established. Now it is two years."

The market still faces a number of problems which have dogged other new financial markets. Like the London traded options market, some potential customers – pension funds, investment trusts and unit trusts – have been prevented from taking part by uncertainties over their tax position.

The market currently offers contracts on three-months Eurodollar deposits, three-month sterling, a 20-year notional UK Government security and four currency contracts on sterling, D-Marks, Swiss francs and yen.

The first three interest-rate futures have attracted the greatest interest, but currency futures contracts have suffered from competition with the existing markets.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	13	55	Dubrovnik	C	6	43	Malaga	S	24	75	Salzburg	F	6	43
Akrotiri	S	22	72	Faro	S	17	63	Malta	F	16	61	Seoul	C	16	61
Algiers	F	19	66	Florence	S	15	59	Manila	F	30	87	Singapore	F	34	92
Amsterdam	R	6	43	Frankfurt	F	5	41	Miami	C	24	75	Stockholm	F	5	41
Athens	F	16	61	Funchal	F	16	61	Milan	S	13	55	Strasbourg	F	8	46
Bahrain	C	16	61	Geneva	C	4	39	Moscow	S	16	61	Sydney	C	24	75
Bangkok	F	34	93	Gibraltar	S	[illegible]	68	Munich	F	3	37	Taipei	R	26	79
Barcelona	F	14	57	Guernsey	R	7	45	Nairobi	F	27	81	Tangier	C	17	63
Beirut	F	28	82	Helsinki	S	0	32	Naples	F	12	54	Tehran	—	—	—
Belgrade	C	4	39	H. Kong	R	20	68	New Delhi	F	30	86	Tel Aviv	F	23	73
Berlin	F	7	45	Innsbruck	S	5	41	New York	F	11	52	Tenerife	C	19	66
Biarritz	C	10	50	Inverness	F	4	39	Nice	S	13	55	Tokyo	R	9	48
Blackpool	F	8	46	Istanbul	S	16	61	Oporto	C	11	52	Toronto	R	11	52
Bordeaux	F	9	48	Jersey	C	7	45	Oslo	C	2	36	Tunis	F	15	59
Brussels	R	6	43	Jo'burg	F	26	79	Paris	F	6	43	Valencia	F	20	68
Budapest	R	4	39	Las Palmas	C	19	66	Prague	F	6	43	Venice	S	10	50
B. Aires	F	29	84	Lima	F	28	82	Reykjavik	C	3	37	Vienna	R	6	43
Cairo	F	30	86	Lisbon	C	13	55	Rio de J'o	C	30	86	Warsaw	F	5	41
Cape Town	S	26	79	Locarno	S	11	52	Rome	S	14	57	Zurich	F	3	37
Caracas	F	30	86	London	C	8	46								
Casablanca	C	17	63	Los Angeles	R	21	70								
Copenhagen	C	4	39	Luxembourg	Sn	3	37								
Corfu	C	10	50	Madrid	F	15	59								
Dublin	C	7	45	Majorca	F	15	59								

Readings at mid-day yesterday:

C–Cloudy D–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

Austerity measures stun the French

Continued from Page 1

package would not help the French economy recover. M Yvon Gattaz, the president of the French employers' federation, warned the measures would act as a further brake on French economic activity.

On the political front, the most intriguing reaction of all, or rather non-reaction, was that of the Communist Party, the junior partner in the Mitterrand administration. The Communist daily l'Humanité merely listed the new measures, although in an editorial it sought to pin the blame for the latest measures on the record of the recent past of the Right and the Patronat.

But the Radical Party called the measures the price of 22 months of bad government by the Left. The package itself was "bad and inept," said the party's secretary,

M Raymond Barre, the former Prime Minister who orchestrated a programme of economic austerity in 1976, said some of the measures "go in the right direction." But he also expressed misgivings. While the package did not increase the costs and charges of industry, they contained no stimulus to industrial production and exports, he argued.

M Valery Giscard d'Estaing, the former French President, said at the weekend that France "will be one of the few Western countries, perhaps the only one, which will not benefit from the international recovery."

Published by The Financial Times (Europe) Ltd., Frankfurt Branch, represented by G.T.S. Damer, Frankfurt/Main, A.V. Hare, R.A.F. McClean, M.C. Gorman, B.A. Lawrence, D.E.P. Palmer, London, as members of the Board of Directors. Printer: Frankfurter Societäts-Druckerei GmbH, Frankfurt/Main. Responsible editor: C. E. P. Smith, Frankfurt/Main.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday March 28 1983

Japanese securities: bankers ask for more

International Capital Markets Review

BY YOKO SHIBATA IN TOKYO

JAPANESE BANKERS have this month fired a fusillade in the battle over who does what in the country's banking and securities industries when they urged the Ministry of Finance to allow them a range of freedoms to handle securities business.

The Federation on Bankers' Association of Japan has asked for:

- Abolition of Article 65 of the Securities Transaction Law, which excludes banks from general securities business;
- Permission to operate Government bond investment funds; and
- The opening of branches in Japan by the banks' overseas subsidiaries engaged in securities transactions such as bond underwriting.

The battery of appeals comes on top of their newly-won permission to make over-the-counter sales of long-term Government bonds, as from this Friday, and with similar sales of medium-term Government bonds by them expected to start in October.

The securities houses, for their part, are:

- Preparing to start selling overseas yen-based commercial paper and certificates of deposit, probably in October; and
- Pressing for freedom to make loans against the collateral of Government bonds.

The banks earlier this month called on the Ministry to reject the securities houses' loans plan – but the authorities appear to be leaning towards approval, as a balance to the permission already given to the banks to make over-the-counter government bond sales.

Selling of overseas commercial paper and certificates of deposits by the securities houses is a particularly acrimonious issue, because it involves foreign exchange business, which the banks regard as peculiarly their own preserve.

Despite bitter opposition from the banks, however, the Ministry of Finance seems set to approve such sales by the houses from the autumn (it is a matter of timing), as a balance to official approval being given to banks to sell medium-term government bonds over-the-counter.

The banks claim that if the securities houses entered the loan business on the government bond collateral basis, the money market would be thrown into confusion. The houses have been pressing hard to enter this field since last year.

Such business involving securities houses should, say the banks, be restricted to the three existing securities finance companies, such as Nippon Securities Finance, which have already extended loans against the collateral of government bonds.

A particular point of concern at the banks is that both they and the securities houses see the loans scheme as leading to the introduction in Japan of a money market instrument, combining the existing medium-term government bond funds with cash and credit card facilities, along lines similar to the cash management account devised by Merrill Lynch in the U.S. in 1977.

The securities houses support their case by saying that to go into the money lending business in Japan requires only that notification should be given to the authorities, and that the extending of loans against the collateral of government bonds should be regarded as an after-service of the securities business.

The facilities offered by the three securities finance companies, they argue, are not adequate, because the procedures involved prevent loans being granted immediately.

The securities houses are in high spirits over the campaign they are now waging with the banks. They see the financial revolution already under way in the U.S. as showing the way to a broader overlapping of financial activities in Japan.

They argue that as personal savings move into securities such as government bonds, they are more opportunely placed than the banks to offer a broad range of investment instruments.

Eurodollar market in the doldrums

BY MARY ANN SIEGHART IN LONDON

TWO questions were on everybody's lips in the Eurodollar bond market last week: "Where have the investors gone?" and "What's happened to the borrowers?" Turnover was extremely low all week and only two new issues were launched.

So what are the answers? This time last week, bankers were saying that investors were holding back until the U.S. Treasury funding had finished. Since the last auction was on Thursday, that – if it were true – would point to a bumper day on Friday, which did not materialise.

Another excuse always used on a Friday is that investors are waiting for the U.S. money supply figures to be published. But since these come out every week, they are unlikely to have been the main factor behind last week's lacklustre showing.

Uncertainty about interest rates is probably more important, as far as investors are concerned. If, as *some believe, rates are likely to rise* before they fall, it makes little sense to look into bonds with lower coupons.

But there is a less obvious link too. In the last three or four weeks, the six-month Eurodollar deposit rate has been rising, and the Fed Fund rate is also on its way up.

Bond traders who need to fund their positions will only be able to do so profitably if there is a positive margin between the rate at which they borrow and the interest they receive on the bonds they are holding. This is known as "positive carry."

But once rising short-term interest rates start squeezing this margin, *investors get worried. For if it* becomes unprofitable to hold an inventory of bonds, traders will start selling them off. And this, of course, will bring prices down.

An alternative theory is simply that the demand is there, but it is not being matched by supply – or at least, not by the right sort of supply.

As one senior new issue manager says: "A sensibly-priced issue would sell readily in the market. The real problem is that everyone keeps bringing very silly issues, and you can't expect investors to buy silly issues. The borrowers are being too greedy and the bankers are encouraging it."

To a certain extent, this may be true. *One big investor confirmed on* Friday that he had hardly bought any recent issues because he thought the terms were too tight. And Friday's Dresdner Bank issue confirmed the view that tightly-priced deals are not easy to shift in these market conditions.

The $100m, seven-year bond carried a coupon of 11 per cent at a price of par, and started trading at a discount of more than 2 points

Portugal rethinks its Eurocredit

BY ALAN FRIEDMAN IN LONDON

BANKERS from six major institutions met Portuguese officials for dinner in Lisbon last Thursday and emerged from meetings on Friday with refinements of the ill-received $400m Eurocredit. The changes are designed to improve chances of a successful deal for the Republic.

*The banks represented at the Lis*bon meetings were Bank of Tokyo, Chase Manhattan, Industrial Bank of Japan, Lloyds Bank International, Manufacturers Hanover Trust and National Westminster Bank.

It is believed that the size of the credit will be reduced to around $300m and that Portugal will agree to pay higher interest margins than those indicated when the deal was first mooted earlier this month.

These original terms were understood to involve ⅝ per cent over the London interbank offered rate (Libor) and 0.30 per cent over U.S. prime. The proposed loan met a very sluggish response from banks and some bankers said it was timed inappropriately, ahead of the April 25 general election.

On Friday some bankers suggested the seven to eight year loan might soon include an element of ¾ per cent over Libor, although not necessarily interest at this level throughout. Official details of last week's revisions have still to emerge.

There was official confirmation, however, from Credit Lyonnais in Paris that two banks have pulled out of the novel ECU 150m five-year Eurocredit – Citicorp and Morgan Guaranty – (which is convertible into bonds) it is leading. The U.S. banks are unhappy about the lack of sufficient cross-default clauses and so have withdrawn.

Credit Lyonnais maintains that *with a French government guaran*tee the banks have nothing to worry about. An executive commented on Friday that "the Government has to give guarantees for many borrowers and does not want to create too many cross-default links."

In Eastern Europe, last week saw two major debt rescheduling negotiations going forward. Talks on Poland's debts produced little concrete progress, but there is a growing consensus that the rescheduling pact should cover a three-year period rather than 1983 alone.

While the Polish talks clearly have a long way to go, the case of Yugoslavia is dramatically different. Friday night saw an announce*ment from Manufacturers Hanover* Trust – the chairman of a 15-bank coordinating committee – that agreement had been reached with a delegation from Belgrade on a $4bn debt rescheduling and loan package from Western commercial banks.

The agreement marks the completion of the international rescue package for Yugoslavia, which includes help from the IMF ($350m).

As already reported, the Yugoslavs resolved their concerns over whether the Federal Republic could borrow in its own name by arranging for the $1.4bn rescheduling of medium-term debt and $600m of fresh loans to be borrowed by the Yugoslav National Bank and the country's commercial banks and guaranteed by the Republic. The $600m however, is exclusively for the National Bank.

Another element of the compromise was the banks' lowering of the *fee on this $2bn form 1¼ to 1⅛ per* cent and lengthening the maturity from five to six years.

In addition, some $1.8bn to $2bn of short-term bank lines which were outstanding to the Yugoslav commercial banking system in January will be rescheduled for two years.

In Latin America, attention focussed on Venezuela, which sent a telex to its 300 creditor banks announcing a three-month moratorium on the repayment of public sector principal. Dr Arturo Sosa, the finance minister, also said Venezuela would seek IMF help.

Bankers are convinced this will mean a drawdown first of $1.2bn to $1.3bn of automatic IMF facilities and then a full-scale conditionality package, which could bring in a total of $3bn to $3.5bn for Venezuela.

The first meeting of Venezuela's 12-bank advisory committee, *chaired by Chase Manhattan, is set* for this Wednesday in New York. At stake this year is $9bn to $10bn of maturing public sector foreign debt. Total Venezuelan foreign debt is around $32bn, of which some $24bn is thought to be public sector.

Work on Ireland's planned $300m Eurocredit is continuing and it is now expected within the next week or two. Bankers say there is a distinct lack of enthusiasm for a deal with a maturity which is longer than seven years. The margins being discussed are said to be ½ to ⅝ per cent over Libor and 0.25 per cent over U.S. prime.

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
U.S. DOLLARS							
Bk. of Tokyo ‡	125‖	1990	7	11	100	CSFB, Morgan Gty., SG Warburg, Bk. of Tokyo.	11.000
SCI Finance §‡ ‡	20	1998	15	5	100	Dominick & Dominick	5.000
National Australia Bk. ‡	50¶	1990	7	11¼	100	CSFB	11.250
Dresdner Bank ‡	100¶	1990	7	11	100	Dresdner Bank	11.000
D-MARKS							
Euratom ‡	150	1993	10	7⅞	99	Dresdner Bank	7.521
IADB	200	1993	10	7¾	*	Deutsche Bank	*
SWISS FRANCS							
Sanyo Denki **§‡	20	1988	–	4	100	SBC	4.000
Sanyo Electric §‡	100	1993	–	3½	100	CS	3.500
Fuji Electric ‡	100	1993	–	6	100	Banca del Gottardo	6.000
Fuji Bank (Schweiz) ‡	20	1992	–	5¾	100	SBC	5.750
Yasuda Chiyoda Kansai **‡	10	1988	–	6⅛	99½	Bque. Morgan Grenfell en Suisse	6.375
SATS **‡	50	1987	–	6⅜	100	UBS	6.365
Dainippon Screen **§	40	1989	–	4	100	SBC	*
EIB	100	1993	–	*	*	SBC	5.750
GUILDERS							
Indonesia ‡	100	1993	5½	8¾	100	Amro Bank	8.750
ECUs							
Credit National	50	1993	10	12¼	*	Credit Lyonnais, Kredietbank Lux., BNP	*
YEN							
ICO **‡	5bn	1993	9	8.6	99.8	Bk. of Tokyo	8.816
Austria ‡ ‡	20bn	1993	9	8.2	99.5	Daiwa Secs.	8.446

* Not yet priced. ‡ Final terms. ** Placement. † Floating rate note. Ø Minimum. § Convertible. ‖ Increased. ¶ In two tranches. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

US BONDS

Nervousness over rumours of a firmer Fed

THE FEDERAL Reserve Board's policy making Federal Open Market Committee (FOMC) meets again tomorrow to set the guidelines for the second quarter at a time when all eyes in the credit markets are again focused on Fed policy.

Amid renewed rumours that the Fed's position has already firmed slightly, short-term rates rose again last week further flattening the yield curve. Nervousness in the markets was heightened by sugegstions that Mr Paul Volcker, the Fed's chairman had said the Fed was taking in some of the slack and by indications from the Fed that institutional changes have contributed only moderately to the recent rapid growth of the monetary aggregates.

The suggestion is not that the Fed has tightened credit policy, but rather that it has made even clearer that it will not lead a further downwards shift in short-term rates at present.

The underlying tone of the markets last week was surprisingly resiliant, particularly given the three-part $13.5bn mini-refunding which the Treasury completed. Although some of the new issues remain in dealers hands the first two auctions went better than expected. The third, the auction of $3.5bn in 20-year notes was a bit of a disappointment with the average yield reaching 10.81 per cent. Nevertheless up until Friday the Government market was showing moderate price gains.

However on Friday interest rate concerns came to the fore and wiped over one point off the Treasury long bond price leaving it to close virtually unchanged on the week at 97⅜.

Investor caution is likely to be visible again this week as end-of-quarter borrowing pressures mount, the Easter holiday period draws near, and the settlement dates for the recent Treasury offerings also fall due. Prospects after that appear brighter. In the second quarter the Treasury will need to raise about $36.5bn in new cash, but at least for the moment the flood of new Treasury issues is over.

This could provide another opportunity for corporate treasurers to come to the market. Last week the volume of straight new issues totalled just $445m.

American Telephone and Telegraph (AT and T) again dominated discussion in the corporate sector. Standard and Poor's downgraded the long-term debt issues of 11 of the Bell System subsidiaries but maintained the ratings on eight other operating companies and boosted the rating on Pacific Telephone and Telegraph.

The S and P ratings, which were considerably more generous than those assigned by Moody's two weeks ago, received the qualified approval of both AT and T (which called the downgradings "disappointing" but the changes overall as "realistic"), and the market, which had already lifted Bell System bond prices back to the levels of before Moody's preemptive move.

The real test of the Bell System bonds, which total $47bn or about 10 per cent of the U.S. corporate market, came on Thursday when the South Central Bell Telephone issue was priced.

The issue, the first by a Bell System company since November 1981, before the divestiture plans were announced, appeared to be well received. A $150m issue of 10-year notes priced at 99.5 to yield 10.96 per cent and a $100m issue of 40-year debentures priced at 99.75 to yield 11.905 per cent sold out quickly.

Following up the sale, Southwestern Bell Telephone announced on Friday the planned sale of $300m of debt securities next month.

Otherwise the corporate sector held little sparkle last week. Prices were marginally higher until Friday and closed virtually unchanged.

Among the few other new issues Citicorp came back to the markets with a $150m issue of three-year floating rate notes.

Paul Taylor

U.S. INTEREST RATES (%)

	Week to Mar 25	Mar 18
Fed funds wkly aver	8.75	8.57
3-month Treas bills	8.51	8.35
3-month CDs	8.90	8.80
30-year Treas bond	10.76	10.87
AAA Utility	11.88	12.00
AA Industrial	11.63	11.75

Source: Salomon Bros (estimates). In the week ended March 16 M1 fell by $1.3bn to $497.1bn.

Credit Suisse to accept ruling on capital ratio

BY JOHN WICKS IN ZURICH

SWITZERLAND'S Federal Banking Commission has ordered Credit Suisse to consolidate its subsidiary CS Holding into the bank's figures for the purpose of calculating capital resource requirements.

The commission's decision is of considerable importance to the Swiss financial community. Had Credit Suisse not been ordered to consolidate this subsidiary then it is likely that several other banks would have set up similar constructions in order to reduce statutory capital ratio commitments.

CS Holding was set up last spring to take over the bank's 49 per cent stake in Financiere Credit Suisse First Boston (FCSFB), the leading Eurobond house, and 5,000 shares in the Swiss Elektrowatt concern. The aim was to remove these important holdings from consolidation and thus reduce capital ratio needs.

Announcing acceptance of the ruling Dr Oswald Aeppli, the chairman of Credit Suisse, stressed that the bank was convinced that the order had no legal basis and added that should the question of capital backing become important in the future then it was reserving the right to take the matter before the Federal Court.

According to Dr Aeppli, Credit Suisse were making their conditional acceptance of the order because the commission had made concessions on some points. First there is to be unspecified reduction in capital ratio needs in the case of FCSFB and second, although Credit Suisse has announced that it intends to increase its stake in the company to 54 per cent, the commission has agreed to look upon it as a joint venture.

At present Credit Suisse has a substantial capital-resources surplus in relation to statutory requirements. At the end of 1982 the bank reported total capital resources (share capital, reserves and carried forward profits) of SwFr 4.73bn ($2.28bn) in comparison with a balance sheet total of SwFr 73.5bn. At the same time CS Holding had SwFr 135m in total resources against a balance sheet total of SwFr 143.6m.

Sandoz to raise dividend

SANDOZ, the Swiss chemical company, will recommend its first dividend increase since 1978 at its May 5 general meeting, John Wicks reports. The board proposes the payment of SwFr 72.50 per share and SwFr 14.50 per bearer participation certificate for 1982 compared with SwFr 65 and SwFr 13 respectively, for the previous four years.

Consolidated earnings increased by 20.3 per cent to a record SwFr 273m ($131.2m) last year and cash-flow was up 12.3 per cent to SwFr 610m.

Turnover advanced by 5 per cent to a record SwFr 6.05bn of which SwFr 1.69bn was accounted for by the Basle-based parent company Sandoz AG. Parent-company net earnings rose from SwFr 81m to SwFr 89.9m.

Research and development expenditure totalled a record SwFr 497m.

Bell to postpone corporate reshuffle

By Robert Gibbens in Montreal

BELL CANADA has decided not to proceed with its proposed corporate reorganisation until the outcome of a commission of inquiry into Canadian radio and television is known. The Bell decision comes in spite of the company's success in the Quebec Court of Appeal—which has rejected a Federal Government challenge to the reorganisation plan.

Last summer Bell Canada took all legal steps needed to set up Bell Canada Enterprises (BCE) which would have held all the shares of the regulated telephone companies and also Bell's holdings in nearly 80 non-regulated communications and equipment businesses. The effect would be to separate regulated from non-regulated businesses, and make it impossible for the CRTC, the federal regulatory agency, to include income from non-regulated businesses in the telephone service rate-base.

Narby rules out accord with Sofati

BY ANDREW FISHER, SHIPPING CORRESPONDENT

MR FRANK NARBY, head of Cast container operation, confirmed yesterday that he had been holding talks with his bankers in Canada but denied that any accord with the small breakaway Sofati line would occur.

Back in his Swiss ski resort home of Gstaad on Friday after talks in Montreal the 55-year-old Mr Narby said these had concerned future trading prospects of the group.

Mr Narby owns 61 per cent of Eurocanadian Shipholdings the Bermuda-based parent company of Cast which was the subject of a $200m rescue package nearly a year ago. The Royal Bank of Canada was heavily involved in this along with the Bank of Montreal.

Last autumn, several employees of Cast broke away to form the small Sofati line. Both companies have recently held talks with Canadian National Railways, an 18 per cent shareholder in Cast.

Each company's talks with CNR have, however, been separate. Mr Narby was adamant that Cast had no intention of coming to any arrangements with Sofati.

"There never has been, is not now, and will not be at any future time a possibility of combination of any sort whatsoever between Eurocanadian and Sofati," he stated.

With the delivery soon of another ship from South Korea, Cast will have some 3m tons of shipping in container operations on the fiercely competitive North Atlantic routes and in bulk cargo shipping.

Since September, he said, container rates on the North Atlantic route served by Cast had fallen as much as 30 per cent. "We are in a battle for market share through the Montreal gateway into North America."

The main competition comes from a consortium including Canadian Pacific and the C. Y. Tung group of Hong Kong. Mr Narby reckoned that Cast was now almost level with this consortium, in which Belgian interests are also involved.

Canadian National Railways declined to comment on the discussions with Cast or Sofati but some form of capacity rationalisation is believed to be on the way to offset the continuing heavy losses on the over-tonnaged North Atlantic routes.

INTERNATIONAL APPOINTMENTS

Changes at Signal Companies

● THE SIGNAL COMPANIES, INC., has made the following changes following the merger with Wheelabrator-Frye Inc. Mr Daniel W. Derbes, and Mr Paul M. Montrone, executive vice-presidents—operations, will have direct responsibility for all operations of the combined entities. Mr Derbes and Mr Montrone will each become presidents of newly formed formed operating groups. Mr Derbes' group will be called the Signal Technology Group (engineered products, systems and services). Mr Montrone's group will be called the Signal Industrial Systems Group and be headquartered at Hampton, New Hampshire. Mr Gary M. Cypres, Mr Marc I. Stern and Mr Steven Shulman, senior vice-presidents of Wheelabrator-Frye, will be elected vice-presidents of Signal. Mr Cypres will become vice-president—finance, reporting to Mr Andrew J. Chitiea, who remains Signal's senior vice-president and chief financial officer. Mr Stern will become vice-president—special assignments. Mr Sypres and Mr Stern will be transferred to Signal's La Jolla, California, headquarters. Mr Shulman will assume responsibility for corporate acquisitions and divestitures and maintain offices at Hampton, New Hampshire. All three posts are new positions.

● Mr Charles G. Cullum and Mr John L. Cox have been elected to the board of REPUBLICBANK CORPN. Mr Cullum is chairman and chief executive officer of Cullum Companies, Inc. He previously served on the board of RepublicBank Dallas. Mr Cox is a director of Texas National Bank.

● Mr John E. Willett has been appointed president of INTERNATIONA NABIS BOCRNSAD NATIONAL NABISCO BRANDS, INC. He was executive vice-president, International Nabisco Brands, and is a senior vice-president of the parent company, Nabisco Brands, Inc. Mr Willett's appointment follows the resignation of Mr Martin F. C. Emmett, as president of International Nabisco Brands, Inc. for personal reasons. He will remain a member of both the board of directors and the executive committee of the board.

● Mr C. Paul Marie has been appointed managing director of SPRING GROVE IRELAND, a member of Spring Grove Company of Henley-on-Thames, Oxfordshire. He was general manager of Payen (Ireland), a Turner & Newall subsidiary. Mr Marie replaces Mr Alan Startin, General Manager of Spring Grove, who is returning to the UK-based Supring Grove Services to work on special projects.

● Mr F. A. Saville, who has been chief executive officer of the COMMERCIAL UNION GROUP in Canada since 1975, will be retiring on April 30. He will remain on the board of Commercial Union of Canada Holdings as a non-executive director. Mr H. B. Greer, president and chief operating officer, will become chief executive officer in Canada on May 1.

● Mr John Connell has been appointed representative for the BARCLAYS GROUP OF BANKS, Stockholm, Sweden.

● The supervisory board of the ADAM OPEL has named Mr David D. Campbell as a regular member of the board of managers, responsible for manufacturing. Mr Campbell will succeed Mr Clifford J. Vaughan, who was elected a vice-president of General Motors Corpn. and appointed managing director of General Motors do Brasil. Mr Campbell was general manufacturing manager at the Fisher body division with responsibility for plants in the U.S., Europe, and South America.

● As Mr Bill Todd, former director of investor relations, has left BURLINGTON NORTHERN INC., the responsibility for co-ordination of investor relations and other external financial communications has been assigned to Mr Don Pope, assistant vice-president—operations analysis. Mr Pope is located in Seattle.

● Mrs Virginia M. Sermier has been elected a senior vice-president, international banking group, of NATIONAL BANK OF NORTH AMERICA. Mrs Sermier will head the bank's trade finance division in lower Manhattan. Mrs Sermier has been responsible for corporate lending and syndications since 1980.

● RICOH COMPANY, Tokyo, has appointed Mr Takeshi Ouye, president, as chairman of the board. Mr Hiroshi Hamada, executive managing director, will succeed Mr Ouye as president. Mr Tadahiro Kokushi, Mr Takao Nawate and Mr Shinpei Watanabe, all directors, will be appointed managing directors on April 1.

● Mr Manuel Galego has been promoted to senior manager, government lending department at NATIONAL BANK OF CANADA'S head office in Montreal and is succeeded as syndication manager by Mr Jacques Boribond who was an area manager with Sumitomo Bank in London.

● Mr Richard A. Barton has been elected a senior vice-president of CBI INDUSTRIES, INC. Mr Barton, a vice-president since 1975, has served the firm as general counsel since 1965.

● On March 16 Mr Bror Mickels took over as general manager of NOVO INDUSTRI OY, the Finnish Novo pharmaceuticals subsidiary. Mr Mickels was managing director of OY Dumex AB.

● Mr Stephen E. Smith has been named vice-president of engineering and automation of NORTHROP CORPN'S aircraft division. He succeeds Mr Joseph T. Gallagher, who has become vice-president and general manager of the division, the largest operating unit in the aircraft group.

● KUEHNE AND NAGLE, the world wide freight forwarders, has appointed Mr Jim McEwan, branch office manager in Liverpool, to a new executive development position in the U.S. His task will be to increase KN's two-way NVOCC and cargo operations between the UK and the whole Mid-West U.S. region, including the States of Colorado, Dakota, Iowa, Kansas, Minnesota, Montana, Nebraska and Wyoming.

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	week	yield
Amex O/S Fin. 14⅝ 89	75	112½	112⅞	0	−0⅛	11.31
Amro Bank 13 89	200	105⅝	106⅛	+0⅛	+0⅛	11.75
BHP Finance 14⅜ 89	150	108⅝	109⅛	0	0	12.56
British Col. Hyd. 15⅛ 92	150	117⅛	117⅝	0	0	12.01
Canada 14⅜ 87	750	110⅞	111⅜	0	+0⅛	10.91
Canadair 12½ 89	175	104⅝	105⅛	+0⅛	+0½	11.38
Canadian Wheat 11⅜ 90	50	100¼	100¾	0	0	11.12
Can. Pac. Ltd. 14⅝ 92	75	110⅞	111⅜	0	0	12.50
Can. Pac. Sec. 15 89	75	110⅝	111⅛	+0¼	+0⅞	12.42
Citicorp O/S 15 84/92	100	104⅝	105⅛	0	0	9.88
Coca Cola Int. 9⅞ 92	100	24¾	25¼	0	+0⅛	10.73
Coca Cola Int. 11⅜ 89	100	104⅞	105⅜	+0⅛	−0⅛	10.59
Credit Suisse 10½ 89	100	100½	101	+0½	−0⅛	10.32
Deutsche Bk. F. 14⅜ 89	300	110½	110⅞	−0⅛	−0⅛	11.81
Du Pont 11⅜ 95	150	101⅞	102⅜	+0⅛	+0⅛	10.91
Du Pont 14⅜ 89 WW	200	107⅝	108⅛	−0⅛	+0⅛	12.24
EDC 10¾ 88	100	99⅞	100⅜	+0⅛	+0⅛	10.69
EDF 12⅜ 87	150	103⅜	103⅞	0	−0⅛	11.64
EEC 11½ 95	200	99½	99⅞	+0⅛	0	11.58
EIB 11 91	125	98½	98⅞	0	+0⅛	11.32
EIB 15¼ 92	100	113⅞	114⅜	0	−0⅛	12.78
Exp. Dev. Cpn. 11⅜ 87	100	102⅛	102⅝	0	0	10.99
Forsmarks 13⅜ 92	75	105⅜	105⅞	0	−0⅛	12.66
Gaz de France 12⅞ 93	175	19¾	20¼	0	0	12.24
Gen. Elec. Credit 9¾ 91	100	14⅞	15⅜	0	+0⅛	10.64
Gen. Elec. Credit 12 89	100	106⅞	107⅜	−0⅛	0	10.41
GMAC O/S Fin. 10½ 90	200	97¾	98¼	0	+0½	10.91
GMAC O/S Fin. 15 87	100	108⅞	109⅜	−0⅛	0	12.04
Gulf Oil Fin. 12⅜ 87	100	103⅝	104⅛	+0⅛	0	11.03
IBM Wld. Trade 12⅜ 92	200	109⅜	109⅞	+0⅛	0	10.57
Lloyds Euro. 11½ 94	100	†17¾	18¼	0	+0⅛	11.80
Manitoba Prov. 11⅜ 89	125	102⅝	103⅛	+0⅛	0	11.08
Manitoba Prov. 13⅜ 89	100	108½	109	+0½	−0½	11.71
Midland Int. F. 11½ 92	150	99¾	100¼	0	0	11.48
Nat. West. Fin. 11⅜ 92	150	101⅛	101⅝	0	+0⅛	11.46
New Brunswick 15⅛ 87	75	111⅜	111⅞	0	0	11.64
Newfoundland 15½ 90	75	113⅜	113⅞	−0⅛	−0⅛	12.56
Nippon Credit 11⅜ 93	100	97⅛	97⅝	+0⅛	+0⅛	11.68
Nova Scotia Pr. 15⅛ 89	75	113⅜	113⅞	0	−0⅛	12.04
Ontario Hydro 11⅜ 89	200	102⅝	103⅛	+0⅛	0	10.59
Ontario Hydro 12⅜ 92	200	106⅜	106⅞	+0½	0	11.54
Ontario Hydro 15 92	150	116⅜	116⅞	+0½	0	11.92
Prudential O/S 10⅝ 93	100	99¾	100¼	0	+0⅛	10.62
Prudential O/S 12⅜ 87	150	106½	107	+0⅛	+0⅛	10.76
Quebec Hy. 11½ 92 (D)	100	101	101½	+0½	+0⅛	11.28
R. J. Reynolds 12⅜ 89	100	104⅝	105⅛	−0⅛	−0⅛	11.60
Sasktchwn. Pr. 10⅝ 90	125	98¼	98¾	0	0	11.07
Skand. Enskil. 11½ 88	100	†99	99½	0	−0⅛	11.70
SNCF 11½ 93	100	98⅞	99⅜	0	+0⅛	11.65
Swed. Exp. Cr. 14⅜ 90	100	109	109½	0	+0⅛	12.68
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DEUTSCHE MARK STRAIGHTS [illegible]

SWISS FRANC STRAIGHTS [illegible]

	Issued	Bid	Offer	Change on day	week	yield
Transcanada Pipe 5¾ 93	100	99⅝	99½	+0⅛	+0⅛	5.83
Un. Bk. Norway 5½ 93	60	97½	97⅞	0	+1	5.88
Volvo 5⅜ 91	60	101⅛	101½	+0⅛	+1⅛	5.16
World Bank 5½ 93	100	100⅜	100⅞	+0⅛	+0⅛	5.41

Average price changes... On day +0⅛ on week +0½

YEN STRAIGHTS [illegible]

OTHER STRAIGHTS [illegible]

FLOATING RATE NOTES [illegible]

CONVERTIBLE BONDS [illegible]

EUROBOND TURNOVER
(nominal value in $m)

	Cedel	Euro-clear
U.S. $ bonds		
Last week	6,312.7	10,274.2
Previous week	4,901.2	10,800.7
Other bonds		
Last week	968.3	795.0
Previous week	1,525.5	782.3

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn = The current coupon. C.yld = The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv. date = First date for conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Generale du Luxembourg SA; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bank of Tokyo International; Chase Manhattan; Citicorp International Bank; Credit Commercial de France (Securities) London; Daiwa Europe NV; Deltec Securities (UK); EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch; Morgan Stanley International; Nomura International; Orion Royal Bank; Robert Fleming and Co.; Samuel Montagu and Co.; Scandinavian Bank; Societe Generale Strauss Turnbull; Sumitomo Finance International; S. G. Warburg and Co.; Wood Gundy.

Closing prices on March 25

UK COMPANY NEWS

Strong second half boosts Alpine Hldgs.

A STRONG second half has boosted profits of Alpine Holdings for the year ended January 31 1983. The company is the subject of an agreed offer from Kean and Scott, a subsidiary of Hawley Group.

Group profit in the second half rose from £620,000 to £1.36m, to make a total of £2.04m for the year, compared with £1.12m. This is after allowing for a loss of £190,000 (£273,000) at Alpine Dreamline, the fitted bedroom furniture subsidiary which was sold last November.

As agreed under the offer terms for Alpine there is to be no final dividend. The interim of 2.275p, therefore, stands against the total of 5.25p paid for the previous year.

Turnover rose from £29.95m to £30.98m and was made up as to:—double glazing £15.9m (£15.94m); Dolphin Showers £13.41m (£12.11m); Dreamline £16.7m (£18.9m).

The profit before tax comprised:—double glazing £528,000 (£152,000); Dolphin £1.9m (£1.46m); associated company £133,000 (£67,000); central administration costs net of interest income and gains on short-term investments £336,000 (£302,000); Dreamline loss £190,000 (£273,000).

Double glazing and Dolphin have entered the current year showing a "significant increase" both in the size of their opening order books as well as in their sales results

Minorco falls into the red at midway

A TURNROUND from a profit to a loss on the share of undistributed earnings of investments and a big debit under extraordinary items, combined to give the Bermuda registered minerals and resources corporation, Minorco a net loss of $13.23m for the six months to end December 1982. This compares with profits of $63.17m in the first half of the preceding year.

Minorco, the international investment arm of South Africa's Anglo American Corporation Group of Companies is to pay an unchanged interim dividend of 6 cents a share, after net losses of 8 cents a share.

The sharp reversal from profits of $48.3m to a loss of $1.9m on earnings from investments is attributed to poor performances from virtually all of Minorco's holdings in the first half of the calendar year 1982.

Investments include Hudson Bay Mining and Smelting, Inspiration Consolidated Copper, Inspiration Coal, Engelhard Corporation, and the commodity brokers Phibro-Salomon.

Extraordinary debits totalling $40.9m, comprised mainly Minorco's share of the $87m write-off on the U.S. Sky top brewster oil drilling rig business in the last accounts of Consolidated Gold Fields, in which Minorco holds a 29 per cent stake.

Mr Julian Ogilvie Thompson, Minorco's chairman, is more optimistic about the outlook for the second half.

Tring Hall set for boardroom shake-up

A BOARDROOM shake-up is expected this week at Tring Hall Securities, the issuing house and financial services company which specialised in bringing companies to the Unlisted Securities Market.

Concern has been mounting among private and institutional shareholders, including Robert Fleming, the South Yorkshire Pension Fund and Kleinwort Benson about the management and prospects of the company *following a merger with* Commercial Development Finance Corporation (Holdings), a Luxembourg company headed by Mr Shakirullah Durrani, a former governor of the International Monetary Fund.

In the proposed changes which are being promoted by the institutions it is understood that Mr Dennis Poll, the managing director of Tring Hall, will step down from that post but remains a director of the group.

Last October Tring Hall unveiled its merger plan with Commercial Development Finance Corporation stressing that its new partner would provide excellent financial backing and good business connections both overseas and in the UK.

Yelverton

The board of Yelverton Investments has agreed to subscribe for £250,000 of new shares in WordNet (UK), representing 25 per cent of the enlarged share capital, and has also agreed to make available to WordNet a loan facility of £250,000. Mr John Bentley, a Yelverton director, is to join the WordNet board.

WordNet is a new company, launched in 1982, to market world-wide an information processing unit which links most ordinary typewriters to all modern-day word processors or personal computers equipped with teletype asynchronous communications.

BOARD MEETINGS

TODAY

Interim:— Peel Holdings.

Finals:— Charterhouse Group, Delta Group, Early's of Witney, Freemans, Good Relations, Glynwed International, Low and Bonar, Markheath Securities, Molynx, Newman-Tonks, Southampton I/sleof Wight and South of England Royal Mail Steam Packet.

FUTURE DATES

Finals:—	
A.B. Electronic Products	Mar. 30
Adwest	Apr. 15
Emess Lighting	Apr. 12
Park Place Investments	Mar. 29
Tyzack (W.) Sons and Turner	Mar. 31
Interims:—	
Armitage Brothers	Apr. 8
Bambers Stores	Mar. 31
Breedon and Cloud Hill Lime Works	Mar. 31
Emray	Apr. 8
Gibbs and Dandy	Mar. 31
Mellins	Mar. 29
Miller (Stanley)	Mar. 31
Queens Moat Houses	Apr. 11
Scottish Television	Apr. 15

BASE LENDING RATES

A.B.N. Bank	10½%
Al Baraka International	10½%
Allied Irish Bank	10½%
Amro Bank	10½%
Henry Ansbacher	10½%
Arbuthnot Latham	10½%
Armco Trust Ltd.	10½%
Associates Cap. Corp.	11 %
Banco de Bilbao	10½%
Bank Hapoalim BM	10½%
BCCI	10½%
Bank of Ireland	10½%
Bank Leumi (UK) plc	10½%
Bank of Cyprus	10½%
Bank Street Sec. Ltd.	10½%
Banque Belge Ltd.	10½%
Banque du Rhone	11½%
Barclays Bank	10½%
Beneficial Trust Ltd.	11½%
Bremar Holdings Ltd.	11½%
Brit. Bank of Mid. East	10½%
■ Brown Shipley	11 %
Canada Perm't Trust	11 %
Castle Court Trust Ltd.	11 %
Cayzer Ltd.	10½%
Cedar Holdings	11 %
■ Charterhouse Japhet	10½%
Choulartons	11½%
Citibank Savings	¶10 %
Clydesdale Bank	10½%
C. E. Coates	11 %
Comm. Bk. of N. East	10½%
Consolidated Credits	11 %
Co-operative Bank	*10½%
The Cyprus Popular Bk	10½%
Duncan Lawrie	10½%
E. T. Trust	11½%
Exeter Trust Ltd.	11½%
First Nat. Fin. Corp.	13½%
First Nat. Secs. Ltd.	13 %
Robert Fraser	11½%
Grindlays Bank	‡10½%
■ Guinness Mahon	10½%
■ Hambros Bank	10½%
Heritable & Gen. Trust	10½%
■ Hill Samuel	§10½%
C. Hoare & Co.	†10½%
Hongkong & Shanghai	10½%
Kingsnorth Trust Ltd.	12 %
Knowsley & Co. Ltd.	11 %
Lloyds Bank	10½%
Mallinhall Limited	10½%
Edward Manson & Co.	12 %
Midland Bank	10½%
■ Morgan Grenfell	10½%
National Westminster	10½%
Norwich Gen. Tst	10½%
P. S. Refson & Co.	10½%
Royal Trust Co. Canada	10½%
Roxburghe Guarantee	11 %
Slavenburg's Bank	10½%
Standard Chartered	‖10½%
Trade Dev. Bank	10½%
Trustee Savings Bank	10½%
TCB	10½%
United Bank of Kuwait	10½%
Volkskas Intl. Ltd.	10½%
Westpac Banking Corp.	10½%
Whiteaway Laidlaw	11 %
Williams & Glyn's	10½%
Wintrust Secs. Ltd.	10½%
Yorkshire Bank	10½%

■ Members of the Accepting Houses Committee.

* 7-day deposits 7.5%: 1-month 7.75%. Short-term £8,000/12-months 10.1%.

† 7-day deposits on sums of: under £10,000 7½%, £10,000 up to £50,000 8¼%, £50,000 and over 9%.

‡ Call deposits £1,000 and over 7½%.

‖ 21-day deposits over £1,000 8½%.

§ Demand deposits 7½%.

¶ Mortgage base rate.

RESULTS AND ACCOUNTS IN BRIEF

CITY OF ABERDEEN LAND ASSOCIATION—Interim dividend 4.25p (3.777p adjusted) net for the six months ended December 31 1982. Turnover for period £4.52m (£2.58m). Pre-tax profit £51,000 (£189,000). Tax £16,000 (£79,000), minorities £5,000 (nil). Earnings per 50p share 1.8p (9.4p). As in previous years first-half profits not indicative of full year outturn. Second half has *started well and results for year should* exceed those of 1981-82.

FINDHORN FINANCE (whisky stock financing)—Interim dividend 7p (6.5p). Turnover £788,311 (£921,381) for half year to January 31 1983. Profit before tax £112,293 (£125,365). Tax £22,500 (£20,893). Earnings per share—nil distribution basis—15p (16.7p). Company says figures for the first six months of any year are not a reliable guide to those for the full year.

TILLEY INTERNATIONAL — Turnover £2.26m (£2.36m) for year to September 30 1982. Pre-tax profit £1,656 (£23,302), after exceptional items £50,093 (£32,119). Tax £2,700 (same). Loss per share 1.53p (earnings 2.98p). Comparatives restated.

PRESTWICH PARKER HOLDINGS (nuts and bolts maker)—For half year to December 31 1982: turnover £2.02m (£1.19m): pre-tax profits £8,000 (£22,000 losses): exceptional redundancies charge £24,000 (nil): tax nil (£9,000 credit): earnings per 25p share 0.18p (losses 0.3p).

SANDERSON MURRAY AND ELDER (HOLDINGS) (woolcomber)—For first half to December 31, 1982: turnover £2.15m (£2.52m); pre-tax losses £24,232 (£29,382 profits): tax £7,723 (£10,303): extraordinary debit £40,000 (nil): attributable losses £72,389 (£18,654 profits): stated losses per 50p share 1.7p (1p earnings).

STANELCO (USM induction heating equipment manufacturer)—For half year to December 31, 1982: turnover £567,000 (£214,000); pretax profits £11,000 (£109,000 losses); tax £6,000 (£57,000 credit).

CAMRA (Real Ale) Investments — Dividend 2.5p for 53 weeks ended January 31 1983 (same). Turnover £1.35m (£1.08m). Operating surplus £57,000 (£37,000) plus exceptional credit, £86,000 (£52,000) making profit £143,000 (£89,000) subject to tax £7,000 (£4,000). Extraordinary debits £22,000 (nil). Earnings 23.9p (22.1p) per share. Further expansion planned in current year.

FIRMIN AND SONS (maker of badges, buttons and military ornaments)—Final dividend 2.5p making 4p net for 1982 (same). Turnover £2.43m (£2.57m). Profit £312,000 (£430,000) including investment income £63,000 (£46,000). Tax charge £159,000 (£218,000). Earnings 5.9p (8.1p).

CHARLES HURST (motor dealer)—Final dividend 2.25p making 3.58p for 1982 (2.98p). Group turnover £54.1m (£44.77m). Profit attributable £459,000 (loss £100,000) after all charges including tax £34,000 (£3,000), but including extraordinary credit £41,000 (£290,000). Earnings 19.34p (8.79p loss).

PIFCO HOLDINGS (electrical appliances)—Pre-tax profits £541,000 (£625,000) for half year to October 31, 1982, including investment income £285,000 (£194,000). Tax £280,000 (£324,000). Interim dividend 1.76p (same) net. Company says full year reflects only a small percentage increase in investment income.

FT Share Information

The following securities have been added to the Share Information Service:

Microgen Holdings (Sections: Electricals).

Munford and White (Electricals).

Resource Technology (Electricals).

Talcorp C$3 Pref. Stock (Canadians).

United Goldfields Corporation (Mines—Australia).

RECENT ISSUES

EQUITIES

Issue price	Amount paid up	Latest Renunc. date	1982/3 High	1982/3 Low	Stock	Closing price	+ or —	Net Div.	Times Covered	Gross Yield	P.E. Ratio
140	F.P.	18/4	145	132	✱Airship Inds	133	+1	—	—	—	—
112	F.P.	16/3	154	129	Assoc. British Ports	156	+1	b7.0	1.6	6.5	14.7
--	F.P.	—	100	98	Atl'tc M'trp'n U.S.$.10	98	.....	Q8c	0.6	5.5	32.8
‡74	F.P.	21/1	158	105	✱Canvermoor	137	.....	b3.64	2.0	3.8	15.5
‖	F.P.	15/4	220	200	✱Grainger Trust	200	.....	u3.8	2.5	2.7	19.1
‡58	F.P.	8/4	112	89	✱HB Elect Comps 10p	100	+2	u1.12	3.2	1.6	22.5
‖	F.P.	—	110	85	✱Sinclair (Wm.)	85	.....	✱4.25	1.0	7.5	19.7
‖	F.P.	—	105	77	Do. Defd.	73	.....	—	—	—	—
175	F.P.	25/3	303	253	Superdrug Stores 10p	270	+2	bd3.5	2.4	1.9	31.9
120	F.P.	—	125	95	✱Swindon Priv Hos £1	95	—5	—	—	—	—
‡10	F.P.	11/3	29	22	✱Tele.Services Int10p	25½	.....	b0.2	3.3	1.1	33.0
‡72	F.P.	30/3	118	89	✱Utd. Packaging 10p	112	—1	b2.5	3.2	3.2	11.9
‡150	F.P.	18/2	340	265	✱WightCollinsR-S10p	280	.....	bd2.75	3.5	1.4	31.2
—	F.P.	3/3	25	20	Yorks&Lancs.W'rrnts	21	.....	—	—	—	—

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1982/3 High	1982/3 Low	Stock	Closing price	+ or —
99.431	£20	10/4	21⅛	12	Birmingham 11½% Red. 2012	16¾	+1
¶100	£10	9/6	10¾	10¼	E.WorcestershireWater 7% Rd. Prf. 1990	10¾	+½
**	F.P.	31/3	224p	162p	Electro-Protective 7% Cnv. Prf.	162p	—2
18	£25	30/6	25½	24¼	Hambros Inv. 6.17% Stpd. Deb. 2018	25½	+¼
—	—	—	100⅝	99	Nationwide Bdg. Soc. 11¼% Bds. 19 3.84	100⅜	.....
‡97.174	£25	6/5	30½	28	Pearson (S) 13% Uns. Ln. 2007	29¾	+½
¶100	£10	9/6	12	12	Sutton Dist. Water 7% Pref. 1988	12	.....

"RIGHTS" OFFERS

Issue price	Amount paid up	Latest Renunc. date ●	Latest Renunc. date ■	1982/3 High	1982/3 Low	Stock	Closing price	+ or —
250	F.P.	26/2	28/4	348	275	AGB Research 10p	325	—5
73	Nil	12/4	15/5	21pm	17pm	✱Aldcom Int. 10p	20pm	—1
‖140	F.P.	25/3	15/4	134	73	✱Airship Inds.	134	.....
280	F.P.	25/3	25/4	402	225	Applied Computer	402	+12
11	Nil	—	19/4	2¾pm	¼pm	✱Berkeley&Hay Hill Invs 10p	¼pm	—¾
10	Nil	—	—	2¼pm	1½pm	Bluemel Bros.	2pm	.....
156	Nil	—	—	31pm	20pm	Brit. Car Auctions 10p	30pm	+2
78	F.P.	7/3	15/3	105	85	Dominion Int. 20p	89	.....
95	Nil	—	—	16pm	16pm	Ferguson Ind.	16pm	.....
385	Nil	—	—	143pm	137pm	Fisons £1	143pm	.....
102	Nil	7/5	29/5	14pm	11pm	✱Garfunkels 10p	14pm	.....
165	F.P.	11/3	10/6	183	168	Geers Gross 10p	168	.....
90	F.P.	21/2	7/4	158	150	Grosvenor Group	154	—2
30	Nil	—	—	14pm	10pm	Guinness Peat	14pm	+3
140	F.P.	28/3	6/5	194	186	Magnet & Southerns	186pm	.....
25	F.P.	18/3	25/4	29	23	Mettoy	29	+3
27	F.P.	21/7	7/4	36	32	Mount Charlotte 10p	35½	.....
A$1.50	Nil	—	—	57pm	38pm	North B. Hill 50c	38pm	—1
60cts	F.P.	11/3	—	38	32	Rand Lon. Corp. 15cts	32	.....
58	F.P.	3/2	29/4	75	61	Stakis 10p	75	.....
400	F.P.	4/3	22/4	515	426	Ultramar	515	+10
81	F.P.	28/3	6/5	111	100	Valor	100pm	.....

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital: cover based on dividend on full capital. g Assumed dividend and yield. u Forecast dividend: cover based on previous year's earnings. H Dividend and yield based on prospectus or other official estimates for 1983. Q Gross. ‡ Cover allows for conversion of shares not now ranking for dividend or ranking only for restricted dividends. § Placing price. p Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered to holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or take-over. ‖‖ Introduction. ⌈⌉ Issued to former preference holders. ■ Allotment letters (or fully-paid). ● Provisional or partly-paid allotment letters. ★ With warrants. †† Dealings under special Rule. ✱ Unlisted Securities Market. ‡‡ London Listing. ‡ Effective issue price after scrip. † Formerly dealt in underspecial rule.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
*Adwest	Apr 15	Interim 2.1
Aurora	Apr 7	Final nil
Automotive Prods.	Apr 8	Final 2.0
*BAT Inds	Apr 7	Final 8.5
*Babcock Intl.	Mar 30	Final 3.6
*Bank of Scotland	Apr 19	Final 11
*Barrow Hepburn	Apr 14	Final 1.4
*Blackwood Hodge	Apr 15	Final 0.75
Blue Circle	Apr 28	Final 11.75
*Booker McConnell	Mar 29	Final 2.125
*Bowater	Mar 29	Final 7.25
*Bowthorpe	Apr 12	Final 1.894
*British Aerospace	Mar 29	Final 4.8
British Printing	Apr 5	Final nil
*Brixton Estate	Apr 20	Final 1.95
Brown Boveri Kent	Apr 30	Final nil
Bryant	Apr 5	Interim 1.0
*Bunzl	Mar 29	Final 3.5
Burmah Oil	Apr 14	Final 7
*Cape Inds.	Mar 29	Final 1.7
*Charterhouse Group	Mar 28	Final 3.0
Coates Bros.	Apr 8	Final 2.42
Croda Intl.	Mar 31	Final 2.25
Currys	Apr 19	Final 4.2
*Delta	Mar 28	Final 1.82
*Dunlop	Apr 21	Final 2.0
*Empire Stores	Apr 13	Final 1.35
*Exco Intl.	Mar 29	Final 2.5
Expamet Intl.	Apr 7	Final 2.5
Flight Refuelling	Apr 29	Final 2.35
*Freemans	Mar 28	Final 2.25
French Kier	May 4	Final 3.15
Gerrard Nat.	May 6	Final 10.75
*Gill & Duffus	Apr 13	Final 4.8
*Glaxo	Apr 11	Interim 4.5
*Glynwed Intl.	Mar 28	Final 4.9
Hall (Matthew)	May 5	Final 4.03
Hambro Life	Apr 14	Final 8.02
Hawker Siddeley	Apr 21	Final 5.6
*Highland Distl.	Apr 11	Interim 0.88
*Ibstock Johnsen	Mar 31	Final 3.0
*IMI	Mar 29	Final 2.5
*Kleinwort Benson	Mar 29	Final 7.0
*Kwik Save Disc.	Apr 22	Interim 1.6
*Ladbroke	Apr 7	Final 3.827
Laing (J.)	Apr 27	Final 1.875
Laird	Apr 5	Final 2.0
Laporte	Apr 22	Final 3.5
Lead Inds.	Apr 7	Final 5.96
*Legal and General	Mar 30	Final 9.0
*Lucas Inds.	Mar 31	Interim 2.6
Marks & Spencer	Apr 29	Final 2.85
Menzies (J.)	Apr 20	Final 3.05
Minet	Apr 13	Final 2.69
Morgan Crucible	Apr 15	Final 4
NEI	Apr 13	Final 2.75
*Newarthill	Apr 14	Final 8.0
P&O	May 5	Final 7.0
Phoenix Assce.	Apr 7	Interim 2.25
RMC	Apr 21	Final 5.8
*Reckitt and Colman	Mar 29	Final 6.0
Reed (Austin)	Apr 7	Final 2.46
Rockware	Mar 24	Final 3.0
RTZ	Apr 15	Final 10.5p
Royal Bank Scotland	May 6	Interim due
*Rugby Portland Cement	Apr 11	Final 2.65
Rush and Tompkins	Apr 22	Final 2.75
Sainsbury (J.)	May 5	Final 6.5
Samuel Props.	Apr 22	Interim 1.3
*Scottish Metropolitan	Apr 8	Interim 1.5
*Senior Eng	Apr 8	Final 0.75
Simon Eng.	Apr 26	Final 8.6
Smiths Inds	Apr 20	Interim 4.0
Smith (W.H.)	Apr 28	Final 1.071
*Sun Alliance	Apr 6	Final 23.5
*Tarmac	Apr 26	Final 12.6
Taylor Woodrow	Apr 15	Final 13.157
*Telephone Rentals	Apr 27	Final 5.15
Tozer Kemsley & Millbourn	Apr 17	Final 0.3
Travis and Arnold	Apr 26	Final 3.69
*Weir	Mar 30	Final 1.75
*Wimpey (George)	Apr 28	Final 1.95

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

Closing prices March 25

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued on Page 21

AMERICAN STOCK EXCHANGE COMPOSITE PRICES

Closing prices March 25

[illegible]

Continued on Page 22

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued from Page 20

[illegible]

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls. 100s	High	Low	Close Quote	Ch'ge Prev. Close
34¼	18¾	WellsF	1.92	6.2	5	555	31¼	30¾	30¾	-½
29¾	17¾	WelFM	2.80	9.7	15	42	28⅞	28½	28⅞	+¼
18	9½	Wendy	s.24	1.4	15	1640	17½	16⅞	17	-½
24¼	12⅜	West	s.36	1.5	16	43	23½	22⅞	23¼	-⅛
40½	31½	WPenP	pf4.50	12		z720	38⅞	38¼	38¼	-1⅛
49	20½	WstPtP	2	4.3	10	202	47	46½	47	+⅜
12⅞	9	WstctT	.g1.04			6	11⅛	11⅛	11⅛	
7¼	3⅜	WnAirL				974	6⅞	6¼	6½	-¼
18¼	8⅝	WAir	pf			16	17⅞	16⅞	16⅞	-⅝
13⅝	6⅜	WCNA	.24	3.6	5	x1112	6⅞	6⅝	6⅝	-¼
53	46	WCNA	pf7.25	14		x57	50⅞	50½	50½	-⅛
67	50½	WPacl			11	18	u68¼	67½	68¼	+1¼

Continued on Page 22

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a–dividend also extra(s). b–annual rate of dividend plus stock dividend. c–liquidating dividend. cld–called. d–new yearly low. e–dividend declared or paid in preceding 12 months. g–dividend in Canadian funds, subject to 15% non-residence tax. i–dividend declared after split-up or stock dividend. j–dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k–dividend declared or paid this year, an accumulative issue with dividends in arrears. n–new issue in the past 52 weeks. The high-low range begins with the start of trading. nd–next day delivery. P/E–price-earnings ratio. r–dividend declared or paid in preceding 12 months, plus stock dividend. s–stock split. Dividends begins with date of split. sls–sales. t–dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u–new yearly high. v–trading halted. vi–in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd–when distributed. wi–when issued. ww–with warrants. x–ex-dividend or ex-rights. xdis–ex-distribution. xw–without warrants. y–ex-dividend and sales in full. yld–yield. z–sales in full.

WORLD STOCK MARKETS

Indices

NEW YORK

DOW JONES

	Mar. 25	Mar. 24	Mar. 23	Mar. 22	Mar. 21	Mar. 18	1982-83 High	1982-83 Low	Since Cmpil't'n High	Since Cmpil't'n Low
♦ Industr'ls	1140.09	1145.90	1140.87	1122.97	1125.29	1117.74	1145.90 (24/3/83)	776.92 (12/8)	1145.90 (24/3/83)	41.22 (2/7/32)
H'me Bnds	—	73.89	73.60	73.43	73.48	73.62	73.89 (24/3/83)	55.67 (12/2)	—	—
Transport.	515.57	519.79	513.90	508.16	508.50	506.27	519.79 (24/3/83)	292.12 (12/8)	519.79 (4/3/83)	12.32 (8/7/32)
Utilities	126.54	126.28	126.29	125.69	126.82	126.25	129.34 (3/3/83)	103.22 (30/7)	163.32 (20/4/69)	10.5 (28/4/42)
TradingVol 000-†	77,560	92,340	94,980	79,880	72,160	75,110	—	—	—	—

♦ Day's high 1153.88 (1154.41) low 1132.64 (1134.48)

	Mar. 21	Mar. 11	Mar. 4	Year ago (Approx)
Indust'l div. yield %	4.88	4.88	4.78	6.99

STANDARD AND POORS

	Mar. 25	Mar. 24	Mar. 23	Mar. 22	Mar. 21	Mar. 18	1982-83 High	1982-83 Low	Since Cmpil'n High	Since Cmpil'n Low
Indust'ls	171.06	171.88	171.60	168.79	170.34	167.91	172.57 (7/3/83)	114.08 (12/8)	172.57 (7/3/83)	3.62 (30/6/32)
§Comp's'te	152.67	153.37	152.81	150.66	151.36	148.98	153.67 (4/3/83)	102.42 (12/8)	153.67 (4/3/83)	4.40 (1/6/32)

	Mar. 24	Mar. 16	Mar. 9	Year ago (approx)
‡Indst'l div. yield %	4.25	4.34	4.24	5.88
Indust'l P/E ratio	13.08	12.82	13.11	7.64
Long Gov. Bond yield	10.59	10.66	10.56	13.14

N.Y.S.E. ALL COMMON

Mar. 25	Mar. 24	Mar. 23	Mar. 22	1982-83 High	1982-83 Low
87.81	88.20	87.85	86.71	88.66 (7/3/83)	58.80 (12/8)

Rises and Falls

	Mar. 25	Mar. 24	Mar. 23
Issues Traded	1,884	1,912	1,937
Rises	656	948	1,078
Falls	872	625	504
Unchanged	356	339	355
New Highs	178	262	196
New Lows	4	6	14

MONTREAL

	Mar. 25	Mar. 24	Mar. 23	Mar. 22	1982-83 High	1982-83 Low
Industrials	355.43	356.29	357.04	357.02	369.26 (10/3/83)	249.68 (21/6)
Combined	351.97	351.66	351.06	350.55	360.53 (10/3/83)	257.27 (21/6)
TORONTO Composite	2122.6	2122.2	2114.3	2118.4	2179.0 (7/3/83)	1352.2 (7/7)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Phillips Pet.	1,205,500	30½	− ⅞
N. Med. Care	1,044,700	14½	−1⅜
Sony	1,010,700	14⅞	− ⅜
RCA	988,700	26⅜	+ ⅜
ATT	976,000	66⅝	− ¾
Southlands	938,200	28½	+1⅞
Contl. Illinois	908,100	23xd	− ½
Dow Chemical	861,100	27⅝	− ⅞
INCO	847,100	13⅜	+ ⅛
Mesa Petrlm.	777,100	10⅜	—

	Mar. 25	Mar. 24	Mar. 23	Mar. 22	1982-83 High	1982-83 Low
AUSTRALIA All Ord. (1/1/80)	507.7	509.2	510.3	506.8	555.5 (4/1/82)	446.2 (8/7)
Meta's & Minls. (1/1/80)	464.2	466.5	472.6	464.2	502.2 (2/2/83)	289.0 (8/7)
AUSTRIA Credit Aktien (2/1/62)	53.56	58.66	53.71	58.18	56.96 (4/11)	47.53 (28/10)
BELGIUM Belgian SE (31/12/63)	115.29	118.76	112.51	111.80	115.29 (25/3/83)	88.42 (20/1/82)
DENMARK Copenhagen SE (3/1/83)	133.62	131.84	131.84	132.29	133.62 (25/3/83)	100.00 (3/1/83)
FRANCE CAC General (31/12/82)	114.5	112.2	111.2	111.1	114.5 (25/3/83)	96.1 (3/1/83)
Ind Tendance (31/12/82)	121.6	119.4	117.2	116.6	121.5 (25/3/83)	98.0 (3/1/83)
GERMANY FAZ-Aktien (31/12/58)	298.28	296.76	292.56	291.45	298.28 (25/3/83)	214.08 (17/8)
Commerzbank(Dec1953)	901.7	895.0	882.0	879.7	901.7 (25/3/83)	650.2 (17/8)
HONG KONG Hang Seng Bank (31/7/64)	983.33	997.65	986.98	961.46	1445.32 (12/1/82)	676.30 (2/12)
ITALY Banca Comm Ital.(1972)	212.70	211.79	214.55	214.71	214.95 (21/3/83)	147.25 (22/7)
JAPAN** Dow Average (16/5/49)	8502.77	8540.1	8511.1	8281.5	8540.1 (24/3/83)	6849.78 (1/10)
Tokyo New SE (4/1/68)	612.04	614.76	612.78	610.52	614.76 (24/3/83)	511.52 (17/8)
NETHERLANDS ANP-CBS General (1970)	125.8	124.4	121.9	120.2	125.8 (25/3/83)	84.8 (6/1/82)
ANP CBS Indust (1970)	107.2	106.2	104.5	103.0	107.2 (25/3/83)	63.2 (4/1/82)
NORWAY Oslo SE (4/1/83)	152.25	151.5	149.2	149.2	152.25 (25/3/83)	99.01 (4/1/83)
SINGAPORE Straits Times (1966)	858.53	831.51	829.31	841.79	852.95 (16/3/83)	567.07 (16/8)
SOUTH AFRICA Gold (1958)	718.4	732.7	715.3	743.0	1099.5 (15/3/83)	355.5 (8/7)
Industrial (1958)	831.7	831.3	832.2	852.9	855.9 (21/2/83)	507.5 (28/6)
SPAIN Madrid SE (31/12/82)	112.25	112.57	112.78	112.05	112.75 (25/3/83)	98.32 (11/1/83)
SWEDEN Jacobson & P. (1/1/58)	1246.49	1251.05	1264.03	1301.08	1316.95 (18/3/83)	563.52 (29/4)
SWITZERLAND SwissBank Cpn.(31/12/58)	312.4	311.2	306.8	308.7	315.5 (25/2/83)	273.0 (17/8)
WORLD Capital Intl. (1/1/70)	—	166.4	165.2	164.1	166.8 (7/3/83)	118.4 (13/8)

(**) Saturday March 12: Japan Dow 8064.20, TSE 592.85.

Base values of all indices are 100 except Australia All Ordinary and Metals—500, NYSE All Common—50; Standard and Poors—10; and Toronto—1,000: the last named based on 1975. † Funding bonds. § 400 Industrials. § 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed u Unavailable.

AUSTRIA

BELGIUM/LUXEMBOURG

DENMARK

CANADA

ITALY

NETHERLANDS

NORWAY

AUSTRALIA

FRANCE

GERMANY

HONG KONG

JAPAN

SINGAPORE

SOUTH AFRICA

SWEDEN

SWITZERLAND

SPAIN

AMERICAN STOCK EXCHANGE PRICES

Continued from Page 21

NEW YORK PRICES

Continued from Page 21

Profits increase for Hypo Bank

By Stewart Fleming in Frankfurt

BAYERISCHE Hypotheken und Wechsel Bank (Hypo Bank), the sixth largest West German bank, has reported a dramatic improvement in its profitability in 1982.

Operating earnings before securities and foreign exchange trading and before loan loss write-offs and provisions, have more than doubled in the parent bank to DM 505m ($208.3m) from DM 209m.

The increase has been achieved even though the assets of the parent bank have remained virtually unchanged at just over DM 60bn.

In the group, which raised total assets by just 3.2 per cent to DM 92bn operating earnings have risen sharply, powered by an increase of around one third in interest income.

In both the parent bank and the group, however, Hypo Bank has sharply increased provisions and write-offs against loan losses. In the parent bank, for example, its published provisions and loan write-offs have jumped from DM 48.1m to DM 306.3m. In the group as a whole, loan losses and provisions are up from DM 105m to DM 397m.

Dr Wilhelm Arendts, the bank's chief executive, attributed the big increase in loan losses and loss provisions to both the domestic and international spheres.

Since only around 10 per cent of Hypo Bank's loans are described by the bank as foreign loans, the bulk of the provisions must be against domestic risks and losses arising from the record bankruptcy wave which has hit the Federal Republic.

The scale of the increase in the provisions is nevertheless surprising. Dr Arendt strongly denies that the bank is deceiving its shareholders (and burying profit from the taxman) by adding excessively to loan loss reserves.

On the other hand, Hypo Bank suffered a serious setback in its earnings in 1980 and had to cut its dividend.

It may well feel that it needs to make extra efforts in what are clearly highly profitable times for the banking industry, to strengthen the bank's inner resources.

The sharp earnings rise partly reflects the improving structure of the asset and liability sides of the balance sheet as interest rates have fallen in the lending and funding mistakes of the late 1970's are overcome.

At the same time, however, the bank has been concentrating on more profitable, shorter maturity lending, and will have profited from the fact that the industry has been able to reduce lending rates more slowly than funding costs have fallen during 1982.

For the group as a whole net profits after tax rose from DM 109m to DM 135m and the bank has finally been able to restore its dividend to DM 9 a share, from the level of DM 7 a share to which it was cut in 1980, and DM 7.50 in 1981.

Earnings up at Elsevier

ELSEVIER-NDU, the leading Dutch publisher, has announced earnings for last year of Fl 42.2m ($15.6m), an increase of 12.8 per cent over 1981.

Sales fell by 3.5 per cent, to Fl 1.3bn, but the net operating result improved from Fl 44.5m to Fl 61.5m.

The fall in sales is partly attributed to the disposal of several foreign participations.

Elsevier-NDU, publishes the widely respected NRC Handelsblad newspaper and the Elseviers weekly magazines. An unchanged dividend of Fl 8.75 per Fl 20 nominal share has been proposed.

Earnings rise for U.S. health care groups

SHARP increases in earnings are reported by two fast-expanding U.S. health care groups.

American Medical International, the Beverly Hills-based group which operates hospitals in the U.S. and abroad and provides related health care services, has boosted second quarter earnings by 26 per cent, from $20m to $25.27m, on revenues up 21.3 per cent, from $338.4m to $410.6m.

This brings earnings for the half-year to $47.6m, an increase of 26.6 per cent. Half-year revenues rose 22.3 per cent, from $658.2m to $805.5m.

Earnings per share – adjusted for the four-for-three share split in February – were 98 cents against 80 cents a share for the half-year

Net earnings for the full year to end-August 1982 totalled a record $78.8m or $1.69 a share on revenues of $1.16bn.

National Medical Enterprises, the Los Angeles-based hospital management company, staged an even faster rate of profits growth, with third-quarter earnings advancing more than 46 per cent, from $16.52m to $24.15m, or from 35 cents to 46 cents a share.

This brings earnings for the nine months to end-February to $65.25m or $1.32 a share, more than 16.7 per cent up on the previous year's corresponding $54.18m or $1.15 a share. The previous year's figures, however, included a gain of $3.46m from an exchange of debentures for stock and a further $3.99m gain from the sale of an investment.

Nine-month revenues increased 56 per cent, from $980.6m to $1.53bn, with the third quarter registering a similar advance from $350.2m to $546.4m.

The earnings per share figures do not reflect a five-for-four stock split recently authorised by the company.

Lafarge plans dividend cut as profits fall

LAFARGE-COPPEE, the French cement producer, plans to cut its dividend to FFr 12 a share for 1982. For 1981 shareholders received FFr 19.

The company said the reduction reflects the sharp deterioration in the group earnings in the wake of the protracted recession in the construction industry.

Last month Lafarge announced that its consolidated earnings fell to FFr 75m ($10.3m) from the FFr 365m earned in 1981.

● Air Liquide, the industrial gas group, has lifted net income by 10 per cent for 1982 to FFr 425.7m from FFr 386.7m in 1981.

The company said that because of limitations on dividend payments, the 1983 payout will be reduced to FFr 12.80 net per share from the FFr 13 to be paid for 1982. It plans to raise its capital through a one-for-10 scrip issue.

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

AI Products cut loss to £464,000 for year

A BREAK-EVEN trading position has been achieved by AI Industrial Products for 1982, after deducting depreciation. And with interest charges lower, the loss before tax has been cut from £989,000 to £464,000.

Mr Alan Lloyd, the chairman, says the final quarter was disappointing. Redundancies resulted in statutory payments for the second half which are £50,000 greater than those charged in the first.

Taking in extraordinary charges of £543,000 (credit £56,000), the year's loss attributable to ordinary holders comes to £1.04m (£982,000). There is a loss per share of 5.11p (10.64p) and to maintain trustee status the dividend is again 0.01p.

The extraordinary items comprise: provision for future rentals in respect of plant previously sub-leased £409,000; provision to reduce value of plant to estimated realisable value following rationalisation £138,000; less profit on disposal of properties £4,000 (£56,000).

Mr Lloyd says strict financial control has enabled trading operations to be funded well within avalable resources. There has been a considerable repayment of loans which has facilitated the reduction of total borrowings, including overdrafts, to a ratio well below one half of shareholders' funds of £6.2m at the end of 1982.

Trading results for 1982 show *the return to profitability of* ceramic products, although losses have continued in metal products following the problems of the engineering industry in general and the demand for castings in particular.

Performance in the divisions other than Blakey's Malleable Castings and Allied Insulators Low Tension Products improved during the second half.

Mr Lloyd tells shareholders that the immediate outlook can hardly be regarded as encouraging, although benefits continue to accrue from cost reductions.

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
Current	British Wool Cloth Show (Bradford (0274) 724235) (until March 30)	Dorchester Hotel, W1
April 6-8	Fashion Fabrex (01-831 7855)	Olympia
April 9-11	London Black Fashion and Beauty Fair (01-272 5193)	West Centre Hotel, W6
April 12-14	Coal Preparation Technology Associated with Cost Efficiency—Symposium and Exhibition (061-832 6541)	National Agricultural Centre, Kenilworth
April 18-22	International Fire, Security and Safety Exhibition and Conference (01-387 5050)	Olympia
April 19-20	All Electronics Show—ECIF (Essex (0799) 22612)	Barbican
April 19-21	2nd Exhibition of Numerical Engineering Equipment and Services (01-579 9411)	Wembley Conference Centre
April 19-21	Fibre Optics Exhibition and Conference (Essex (0799) 22612)	The Brewery, EC1
April 24-27	Incentive Marketing and Sales Promotion Exhibition (01-688 7788)	Brighton
April 24-27	Incentive Marketing and Sales Promotion Exhibition (01-688 7788)	Brighton
April 25-29	Packaging and Brewing Exhibitions—PAKEX and BREWEX (Solihull (021) 705 6707)	NEC Birmingham
April 26-28	Site Equipment Demonstration—SED 83 (01-904 9504)	Hatfield
April 26-29	International Land Reclamation Conference and Exhibition (Tunbridge Wells (0892) 44027)	Civic Hall, Essex

OVERSEAS TRADE FAIRS AND EXHIBITIONS

March 25-28	2nd International Franchise Exhibition (01-439 3964)	Paris
April 11-13	Air Cargo '83 (0727 63213)	Amsterdam
April 12-16	WIRE-TOKYO '83—International Wire Exhibition (0727 63213)	Tokyo
April 16-25	67th Swiss Industries Fair (061 26 20 20)	Basle
April 19-22	World Dredging Congress and Trade Exhibition (Bedford (0243) 750422)	Singapore
April 19-23	World Energy Exhibition and Congress (Dorset (0202) 732648)	Hamburg
April 24-28	*Construction Indonesia '84 (01-486 1951)*	*Jakarta*
April 26-29	International Technology Fair—TECHEX '83 (01-584 5749)	Lyons
May 7-10	Manila Apparel Market Week (01-248 0742)	Philippines
May 17-20	Technology/Inpex Exposition (Pittsburgh (412) 642 7589)	Pittsburgh

BUSINESS AND MANAGEMENT CONFERENCES

March 29-30	IWP: Office Automation—the management seminar (01-242 8697)	Hyde Park Hotel, SW1
March 29-30	Canadian: European fruit juice seminar (01-323 4606)	Cavendish Conference Centre, London
April 5-6	Economist: Europe and Japan—prospects for interdependence (01-839 7000)	Tokyo
April 7	British Franchise Assoc: Expansion through franchising (Colnbrook (964) 4909)	Cafe Royal, W1
April 12	CBI/IMS: Company initiatives on unemployment (01-379 7400)	Centre Point, WC1
April 13-14	Energy Industries Council: Energy to the year 2000 (01-221 2043)	Brighton
April 13-15	Management Centre Europe: '83 International Tax *Conference (219.03.90)*	*Brussels*
April 14-June 2	FT Conference: FT City Course (01-621 1355)	Chartered Insurance Inst., EC2
April 15	ESC: Onshore oil exploration and production (Leics (057 282) 2711)	Selfridge Hotel, W1
April 20	Henley Centre: Budget effects on Business (01-353 9961)	Inn on the Park, W1
April 20-21	Numerical Engineering Society: Computer-aided engineering (01-579 9411)	Wembley Conference Centre
April 21-22	FT Conference: Venture capital (01-621 1355)	Caledonian Hotel, Edinburgh
April 21-22	Monadnock: Project financing (01-262 2732)	Press Centre, EC4
April 21-22	Riba: Effective professional marketing of architects' services (01-637 8991)	Britannia Hotel, Grosvenor Sq
April 26	Macfarlane: The unlisted securities market—year three (01-637 7438)	Press Centre, EC4
April 27	Oyez IBC: ITV—the gathering storm. Where does television go from here? (01-236 4080)	British Academy of Television Arts, W1
May 5-6	Monadnock: Successful joint ventures in Egypt (01-262 2732)	Press Centre, EC4
May 9-11	IRS: 10th Zurich international corporate finance conference (01-637 4383)	Zurich
May 17-20	Lloyd's: Ocean carriers' rights and liabilities (01-247 9461)	Royal Horseguards Hotel
May 17-20	EVAF: Business research for corporate development (01-637 1221)	Hamburg

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

FT COMMERCIAL LAW REPORTS

Gas fire installation subject to VAT

COMMISSIONERS OF CUSTOMS AND EXCISE v VIVA GAS APPLIANCES LTD
Court of Appeal (Lord Justice Waller, Lord Justice Dunn and Lord Justice Slade): March 22 1983

"ALTERATION OF a building" for VAT purposes means an alteration which is structural and substantial in relation to the size of the building, and work which necessitates demolition of only a minimal portion of the building is not alteration *of* a building and is subject to VAT.

The Court of Appeal so held when allowing an appeal by the Commissioners of Customs and Excise from a decision by which Mr Justice Forbes upheld the Manchester Value Added Tax Tribunal's decision that the supply of certain services by Viva Gas Appliances Ltd should be zero-rated.

Section 12 of the Finance Act 1972 provides: "(1) Where a taxable person supplies . . . services and the supply is zero-rated . . . (a) no tax shall be charged on the supply . . . (2) A supply of . . . services is zero-rated . . . if the . . . services are of a description . . . specified in Schedule 4 to this Act."

Schedule 4 has been replaced by the Schedule to the Value Added Tax (Consolidation) Order 1978. Item 2 in Group 8 of the Schedule specifies: "The supply, in the course of the construction, alteration or demolition of any building. . . ."

* * *

LORD JUSTICE WALLER, giving the judgment of the court, said that Viva installed domestic gas pipes into existing dwelling houses. Where a gas appliance was fitted to an existing flue designed for solid fuel, it was necessary to break out the fire-clay fireback.

The Commissioners assessed Viva to VAT in relation to such work. Viva appealed to the VAT tribunal which held that it was work done in the course of the "alteration of a building" within Item 2 of Group 8 of the Schedule to the Value Added Tax (Consolidation) Order 1978, and therefore should be zero-rated.

The tribunal's decision was upheld by Mr Justice Forbes. The Commissioners now appealed against his decision. The question was whether Viva's services were supplied in the course of "the alteration of a building."

It was first necessary to consider the meaning of "alteration of a building."

In *Customs and Excise Commissioners v Morrison Dunbar [1979] STC 406*, 413 Mr Justice Neill said "the alteration to which Item 2 applies is an alteration *of the building* and therefore one which involves some structural alteration."

In the House of Lords in *ACT Construction [1981] 1 WLR 1542, 1546*, Lord Roskill, with whom the other members of the House agreed, said: "I agree with the view of Mr Justice Neill whose reasoning seems to me impeccable."

Although that statement of the law was strictly *obiter*, it was made in response to an express request to the House of Lords for guidance as to the meaning of "alteration of a building," and the point was fully argued before them. Their Lordships in the present case agreed with the guidance given.

In *Customs and Excise Commissioners v Smitmit [1982] 525, 534* Mr Justice Glidewell said that an alteration had to "involve some structural alteration," had to be "substantial in relation to the building as a whole," and would "often involve a degree of permanence."

In *Pearlman v Harrow School [1979] 1 QB 56* Lord Justice Geoffrey Lane said "'Structural,' in this context means something which involves the fabric of the house as opposed to the provision merely of a piece of equipment."

*

The juxtaposition of "alteration" between "construction" and "demolition" in Item 2 was very significant. It lent strong support to the proposition, already approved by the House of Lords in the *ACT case*, that if work were to qualify as "alteration," it must affect the fabric of the relevant building—it must involve some alteration of the structure. It did not necessarily matter whether the fabric affected was load bearing.

The conjunction of "construction," "demolition" and "alteration" of a building indicated that the kind of alteration must not only be structural, but must also be not unlike construction or demolition, and therefore should be substantial. It must be more than a minimal alteration of the building.

If work were to qualify as an "alteration," it must be sufficiently substantial in relation to the relevant building as a whole to enable it to be properly described as an "alteration *of the building*."

It was the nature and substance of the work which indicated whether or not it would amount to alteration of a building. The VAT tribunal found that the fire-clay fireback used with solid fuel was built into the fireplace in such a way as to become an integral part of the fireplace, and that it could be removed only by demolition of the fireback.

That was a finding of fact with which the court could not interfere. The tribunal concluded that that was an "alteration" and that "some degree of structural work of demolition was involved." The tribunal then said: "We consider that the degree of alteration was sufficient to be regarded as an alteration to the building."

It was not necessary in the present appeal to decide whether the fireplace was part of the fabric of the building, or was merely something adhering to the fabric of the building. The question was, could it possibly be said that the demolition and removal of the fireback from the fireplace was an "alteration of the building"?

While the removal of a fireback was an alteration of the fireplace, it could not be said to be "an alteration of the building," whether the building was small or large. Such an alteration was not sufficiently substantial to be described as an alteration of the building.

*

Appeals from VAT tribunals could be brought only on questions of law, and questions of fact were solely for decision by the tribunal itself.

If the court had considered that the issue in the present case was a question of fact or degree, it would not have ventured to interfere with the tribunal's decision as upheld by Mr Justice Forbes.

But it did not so consider it. It was not a borderline case. All the relevant facts had been clearly found and were now common ground. It was not suggested that there were any relevant facts, not recorded in their decision, which were known to the members of the VAT tribunal and would have entitled them to conclude that the relevant works constituted "alterations."

In the circumstances, the question was solely one of law, to which there could only be one answer. While the particular facts might be typical of many other cases, the answer was confined to those facts.

The relevant question of law could be put in one of two ways: (1) Did the facts stated by the tribunal amount to the alteration of a building within the meaning of Item 2? (2) Alternatively, could any tribunal, properly directed, come to the conclusion on those facts that that was the alteration of a building within Item 2?

Whichever way the question was put, the answer was in the negative.

The work of installing a gas fire where there had previously been a coal fireplace was not an "alteration of the building." It was doubtful whether the removal of fire-clay, which had been put on the wall of the room, could ever be said to be the removal of part of the fabric.

The fireclay adhered to the fabric, but probably did not thereafter form part of it. Even if it did become part of the fabric, its removal was minimal in character in relation to the building, however small the house.

Appeal allowed.

For the Commissioners: Simon D. Brown (Solicitor, Customs and Excise).

For Viva: Philip Lawton QC (Speechly Bircham, agents for Simpson & Ashworth, Accrington).

By Rachel Davies
Barrister

THE WEEK IN THE COURTS

The Thames flows into legal history

THE River Thames has long been regarded, in John Burns' phrase, as "liquid history." This year, in *Tate and Lyle Industries v Greater London Council and Port of London Authority*, it has become legal history, after three rounds of awesome litigation.

The first round occurred in 1980. After a 56-day trial, Mr Justice Forbes ruled in Tate and Lyle's favour, and awarded damages against both the GLC and the PLA.

This result led to the second round, which occurred two years later. The Appeal Court allowed both the GLC's and the PLA's appeals. For the time being, the substantial awards of damages floated downstream to linger in the water of oblivion.

Jetty

With the conflicting results of the first two rounds, it came as no surprise that the litigation went into a third round. This round occurred this year, and its outcome was declared last week. The Lords allowed one of Tate and Lyle's appeals, but dismissed the other: victory over the GLC; defeat at the hands of the PLA.

What caused the dispute? A conflict between jetties and terminals.

In 1922, with the PLA's authority, Tate and Lyle built a jetty to enable refined sugar to be loaded for export on to small vessels.

In 1965 and 1966, again with the PLA's authority, Tate and Lyle built another jetty, for the discharge of raw sugar. This involved dredging of a channel and a berth, again undertaken with the PLA's consent.

Sugar

Between 1964 and 1966, also with the PLA's approval, the GLC erected two terminals for the Woolwich Ferry. The effect of the terminals, so Mr Justice Forbes decided, was to cause silting in the river bed and foreshore in the neighbourhood of Tate and Lyle's jetties.

Vessels carrying raw sugar could not approach and be unloaded at the raw sugar jetty. Vessels which had previously loaded and departed with refined sugar from the refined sugar jetty could no longer do so. To enable both jetties to be operated, Tate and Lyle, with the PLA's consent, incurred between 1967 and 1974, additional dredging costs of £344,998 to enable the raw sugar jetty to be kept in action and £195,002 to enable the refined sugar jetty to remain in working order.

After 1974, additional dredging ceased to be necessary, because the PLA made major alterations to the Thames' shipping channel which ended the silting caused by the new terminals.

Legal argument in the appeal to the House of Lords ebbed and flowed in many directions. Lord Templeman's erudite speech contains a profound guide to the currents of the forensic stream.

Remedy

One basis of Tate and Lyle's claim for compensation against the GLC and the PLA was in negligence. Lord Templeman said that in relevant cited cases the plaintiff had suffered personal injury or damage to his property. The claim in negligence assumed that Tate and Lyle were entitled to the maintenance of a depth of water in the relevant parts of the Thames sufficient to enable vessels of the requisite size to load and unload at the jetties.

If Tate and Lyle had a right to a particular depth of water, they had a remedy for interference with that right. If Tate and Lyle had no such right, they had no remedy for any damage to their business activities caused by interference with the depth of water.

Lord Templeman said that Tate and Lyle could only succeed in their litigation if they proved that they were obstructed by the GLC in their exercise of rights vested in them over the river bed.

Tate and Lyle claimed that they had such rights because they were riparian owners. But Lord Templeman said that a riparian owner had no power to object to an alteration in the depth of the river water which did not threaten to cause damage to his land and to interfere with his acknowledged riparian rights or to cause a nuisance to the occupier of his land.

The effect of the siltation was to obstruct the passage of vessels between the main shipping channel and Tate and Lyle's land. This was not an intereference with Tate and Lyle's rights as riparian owners.

Lord Templeman said that riparian rights did not attach to the jetties. A jetty erected on the foreshore of a river belonging to the PLA was not part of the river bank belonging to Tate and Lyle and was not capable of attracting riparian rights. It was "only a chattel."

Another basis on which Tate and Lyle relied was that of contractual rights. But Lord Templemen said that in the PLA's licences to Tate and Lyle to build jetties there was no express grant of a right to use the jetties for loading or unloading vessels of any specified draught. A right to moor, load and unload did not confer any right or any guarantee as to the maintenance of any specified depth of water for the accommodation of vessels of any particular size.

Routes

Nor did section 66 (1) (b) of the Port of London Act 1968 confer on Tate and Lyle any rights to the maintenance of any particular depth of water near or leading to the jetties.

By these routes, Lord Templeman reached the conclusion that Tate and Lyle could not maintain any action in negligence against the GLC or the PLA because they did not possess any private rights enabling them to insist on any particular depth of water in connection with the operation of their licensed jetties.

Lord Templeman also ruled that Tate and Lyle's claim in private nuisance failed. The siltation caused by the GLC did not interfere with Tate and Lyle's use and occupation of the jetties, but with their use of the River Thames. Tate and Lyle must prove some private right over the bed of the River Thames before they could complain that the siltation of the river bed and consequent decrease of the depth of water constituted an actionable infringement of their private rights whether in negligence or in private nuisance. Tate and Lyle had no private rights over the river bed on which to base a case of negligence or private nuisance.

However, the law did not silt up all Tate and Lyle's claims beyond all hope of reclamation. The law of public nuisance came to the rescue.

Argued

Lord Templeman said that the Thames was a navigable river over which the public had the right of navigation. The construction of the ferry terminals interfered with this right, and this interference caused damage to Tate and Lyle.

It was argued for the GLC and the PLA that the combined effect the London County Council (Improvements) Act 1962 and the Port of London (Consolidation) Act 1920 was to authorise this interference. The Law Lords rejected this argument.

But they decided that the PLA was immune from liability for the GLC's interference with the public right of navigation.

Altered

Lord Templeman said that there were no facts or circumstances which should have alerted the PLA to the possibility that the terminals might unnecessarily cause the amount of siltation which occurred.

By approving the GLC's plans for terminals, the PLA did not guarantee that the terminals would not interfere with the right of public navigation more than was necessary or at all.

The Law Lords decided that Tate and Lyle were entitled to recover from the GLC £405,000: a sum representing three-quarters of the additional dredging caused by the terminals.

Justinian

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

INSURANCES

هكذا اصل الأصل

INSURANCE & OVERSEAS MANAGED FUNDS

Barclays Life Assur. Co. Ltd.—cont.

Income Accum.	105.7	111.3	+0.1	—
Do. Initial	104.4	109.9	+0.1	—
Man. Pens. Accum.	226.5	238.5	.....	—
Do. Initial	[illegible]	201.8	.....	—
Gilt-Edg. Pens. Accum.	196.7	207.1	.....	—
Do. Initial	160.0	168.5	.....	—
Money Pens. Accum.	176.9	186.3	.....	—
Do. Initial	143.4	151.1	.....	—

Black Horse Life Ass. Co. Ltd.
71, Lombard St., EC3. 01-623 1288

Black Horse Man. Fd.	220.02		.....	—
Managed Int. Fd.	149.52	157.39	.....	—
Property Fd.	145.74	153.42	.....	—
Fixed Interest Fd.	136.62	143.82	.....	—
Cash Fd.	131.76	138.70	.....	—
Income Fd.	154.17	162.29	.....	—
Extra Income Fd.	142.35	149.85	.....	—
Worldwide Growth Fd.	201.48	212.04	.....	—
Balanced Fd.	162.10	170.64	.....	—
Smlr Co's & Recs. Fd.	194.48	204.72	.....	—
Int. Technology Fd.	233.36	245.64	.....	—
Nth. Amer. & Gen. Fd.	149.45	157.32	.....	—
Energy Int. Fd.	89.48	94.19	.....	—
Pacific Basin Fund	118.97	125.24	.....	—

British National Life Assurance Co. Ltd.
Harlands Rd, Haywards Heath. 0444 414111

Equity	94.4	99.4	+0.2	—
International	114.4	120.4	+1.8	—
Property	105.2	110.7	+0.9	—
Deposit	96.3	101.3	+0.1	—
Fixed Interest	95.1	100.1	−0.5	—
Managed	103.1	108.5	+0.2	—
Equity Pens Cap	93.4	98.3	+0.3	—
Intnl. Pens. Cap.	119.1	125.4	+2.4	—
Property Pens Cap	107.1	112.7	−1.4	—
Deposit Pens Cap	95.7	100.8	+0.1	—
Fixed Int Pens Cap	94.4	99.4	−0.6	—
Managed Pens Cap	104.6	110.1	+0.1	—

Canada Life Group
2-6, High St., Potters Bar, Herts. P. Bar 51122

Equity Gth March 1	85.2		.....	—
Rtmt. Fed. Feb 8	224.8		.....	—
Managed Pen Fund	170.1	179.0	.....	—
Property Pen Fund	110.3	116.2	.....	—
Index Linkd Pen Fund	128.9	135.2	.....	—
Managed	110.9	116.8	+0.9	—
Property	97.9	103.1	.....	—
Gilt and Fixed Interest	98.5	103.7	+0.9	—
Index-Linked	101.3	106.6	.....	—
Equity	111.5	117.4	+0.3	—
Cash	99.3	104.4	.....	—
Midland Bk. Unit Tst.	108.4	114.1	+0.2	—
Midland Bank Intnl.	131.1	138.1	+0.4	—

G.T. Management Ltd.
16 Finsbury Circus, Lond. EC2M 7DJ. 01-628 8131

G.T. Plan Bond Fund	126.8	132.7	.....	—
GT Pln High Yld Fnd	111.2	117.1	+0.8	—
GT Plan Far East Fnd	100.1	105.4	+1.3	—
GT Pln N Am Fund	155.9	164.2	+3.2	—
GT Pln UK&G.E. Fnd	125.4	132.0	−0.3	—
GT Pln Wrldwde Fnd	127.1	133.8	+2.8	—
GT Pension Bnd Fnd	133.0	140.0	.....	—
GT Pen High Yld Fd.	124.7	131.3	+0.7	—
GT Pen Far East Fd.	112.7	118.7	+2.1	—
GT Pen N. Am. Fd.	201.5	212.2	+4.4	—
GT Pen UK & G.E. Fd.	141.3	148.8	−0.3	—
GT Pen Worldwide Fd.	134.8	141.9	+2.7	—

Assicurazioni GENERALI S.p.A.
117, Fenchurch St., EC3M 5DY. 01-488 0733

Intl. Managed Bond	161.36	169.79	.....	—

General Portfolio Life Ins. C. Ltd.
Crossbrook St., Cheshunt, Herts. Waltham X 31971

Portfolio Fd. Acc.	234.6		.....	—
Portfolio Fd. Init.	198.5		.....	—
Portfolio Fd. Cap.	226.6		.....	—
Investment A pts	234.5	247.0	.....	—

Growth & Sec. Life Ass. Soc. Ltd.
48, London Fruit Exchange, E1 6EU 01-377 1122

Flexible Finance	1,413		.....	—
Landbank Secs.	62.7		.....	—
Landbank Scs. Acc.	172.4	176.6	.....	—
G. & S. Super Fd.	£10.638		.....	—

Guardian Royal Exchange
Royal Exchange, E.C.3. 01-283 7101

Guardian Assurance

Property Bonds	298.7	311.1	.....	—

GRE Linked Assurance Limited

Managed Initial	189.5	199.4	+0.1	—
Do. Accum.	207.7	218.6	+0.3	—
Equity Initial	233.4	245.9	−1.2	—
Do. Accum.	256.1	269.5	−2.3	—
Fixed Int. Initial	183.0	192.7	+1.7	—
Do. Accum.	200.6	211.2	+1.8	—
International Initial	202.8	213.5	−0.7	—
Do. Accum.	222.9	234.0	−0.8	—
Property Initial	122.2	128.6	.....	—
Do. Accum.	133.7	140.7	.....	—
Deposit Initial	120.4	126.6	.....	—
Do. Accum.	131.9	138.8	.....	—

GRE Pensions Management Ltd.

Pens. Managed Initial	182.7	192.3	+0.2	—

OFFSHORE AND OVERSEAS

FT LONDON SHARE INFORMATION SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five-Years)

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
18Ja	18Jul	Treasury 9¼pc '83	99⅞	13.12	9.28	10.24
22May	22N	Exch. 13¼pc '83	101¼	18.10	13.28	10.66
12Jan	12O	Exch. 10pc 1983	99¾	5.11	10.03	10.37
15Jul	15Ja	Funding 5½pc '82-84‡‡	97⅛	9.12	5.66	9.25
20Aug	20F	Exch. 11¼pc 1984	100¾	14.1	11.17	10.31
22N	22May	Exchequer 14pc. 1984	103⅛	18.10	13.55	10.85
19D	19Jun	Exch. 3pc 1984	93⅝	12.11	3.20	8.56
26Mar	26S	Treasury 12pc 1984	101⅞xd	27.2	11.77	10.53
22Aug	22F	Treasury 15pc 1985	106⅞	17.1	14.04	10.95
22S	22Mar	Exch. 12pc Cnv. '85	103⅝	14.2	11.58	9.93
21N	21My	Treasury 3pc 1985	89⅝	15.10	3.35	8.37
15Jan	15Jul	Treasury 11½pc 1985	100⅞	9.12	11.40	11.04
3 Sept		Treas 8¾pcCnv '85	96⅛	—	9.08	10.42
22May	22N	Exch. 12¼pc 1985	101⅞	18.10	12.02	11.38
25 Aug.	25F	Exch. 11¼pc '86	101⅛	19.1	11.62	11.27
19N	19May	Treasury 3pc 1986	86⅛	13.10	3.47	7.98
19 Nov	—	Exch. 10½pc Cv '86(£25pd)	26½	—	10.44	10.39
12D	12Jun	Treasury 12pc '86	101⅝	5.11	11.81	11.36
10Ja	10Jul	Treasury 8¾pc '84-86‡‡	94⅝	6.12	8.96	10.37
14Ja	14Jn	Treas. 12¾pc '86 Cnv.	108½	8.12	11.29	9.41
29Apr	29Oct	Exch. 14pc 1986	107⅞	22.9	12.98	11.64
22Jul	22Jan	Exch. 13¼pc 1987	105½	16.12	12.56	11.41
—		Exchequer 2½pc 1987	84	—	2.98	7.26
Oct 6	Apr 6	Exch. 10½pc 1987	97⅞xd	1.3	10.73	11.19
6 Oct	—	Ex. 10½pc '87A (£30pd).	29¼	—	10.75	11.23
1N	1May	Funding 6½pc '85-87‡‡	90xd	27.9	7.22	9.51
14Ja.	14Jul	Treasury 3pc 1987	82¼	8.12	3.65	7.96
3 May	3N	Treas 12pc 1987	102	27.9	11.76	11.41
26Jul	26Ja	Treasury 7¾pc '85-88‡‡	90	30.12	8.61	10.42

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked & Variable Rate

INT. BANK AND O'SEAS GOVT. STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH AND AFRICAN LOANS

LOANS

Public Board and Ind.

LOANS—Continued

Financial

Building Societies

FOREIGN BONDS & RAILS

AMERICANS

CANADIANS

BANKS, H.P. & LEASING

BANKS—Continued

Hire Purchase, Leasing, etc.

BEERS, WINES AND SPIRITS

BUILDING INDUSTRY, TIMBER AND ROADS

CHEMICALS, PLASTICS

CHEMICALS, PLASTICS—Cont.

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS—Continued.

ENGINEERING MACHINE TOOLS

FOOD, GROCERIES, ETC.

FOOD, GROCERIES—Cont.

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

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INDUSTRIALS—Continued

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
—		[illegible] Tech 5p	176	—	u4.0	1.8	3.3	24.4
Feb.	Aug.	Jacksons Bourne	180	31.12	5.0	3.1	4.0	11.7
August		James Inds. 10p	27	17.1	1.25	1.9	6.6	12.3
Nov.	June	Jardine M HK$5	139	25.4	†Q92c	2.3	6.8	6.4
July	Jan.	Jenks & Cattell	29	1.11	Z1.0	—	4.9	—
Oct.	Apr.	Johnson Clnrs.	345	6.9	†17.7	2.3	3.2	19.2
Feb.	Aug.	Johnson Mthy. £1	322	13.12	10.0	1.9	4.4	(14.1)
Jan.	July	Johnston Grp. 10p	287	17.5	4.0	6.2	2.0	11.4
Oct.	June	Jourdan (T.) 10p	98xd	21.3	5.6	♦	8.2	♦
May	Dec.	Kalamazoo 10p	43	1.11	2.5	0.9	8.6	18.6
Feb.	July	Kelsey Inds.	210	31.12	8.0	1.7	5.4	14.5
Nov.	April	Kershaw (A.) 5p	120	21.2	15.0	0.6	17.9	(8.8)
Jan.	Aug.	Kleen-E-Ze Hldgs.	33	13.12	†3.0	0.2	8.1	—
Jan.	Aug.	L.C.P. Hlds.	62	29.11	3.6	0.6	8.3	(6.9)
Oct.	April	L.R.C. Int. 10p	122	21.2	†3.1	2.8	3.6	20.6
July-Dec		Lamont Hldgs. 10p	22	1.11	1.2	1.8	8.0	8.1
Dec.	May	Lawtex	34	11.01	—	—	—	—
Mar.	Oct.	Lep Group 10p	405	31.12	17.5	1.7	6.2	(11.8)
Oct.	July	Lilleshall 10p	25	30.3	‡2.5	—	‡	—
Jan	Oct	Lon. & Liv. 10p	480	29.11	†2.45	2.4	0.7	69.9
Jan.	Sept.	London & Mid'd	114½	13.12	7.75	1.1	9.7	(13.1)
Jul.	Dec.	Lon. & Nthn. Grp.	60½	15.11	†3.75	2.1	8.9	6.4
—		♥Lon. Priv. Health	34	—	—	—	—	17.0
Jan.	June	Long Hmbly. 10p	7½	12.79	B—	—	—	—
Mar	Oct	Longton Inds.	50	6.9	1.0	—	2.9	—
Dec.	June	Low & Bonar 50p	74	18.10	†7.0	0.6	13.5	(25.0)
June	Dec.	M.Y. Dart. 10p	16	1.11	†h1.21	—	‡	—
May	Sept.	M'c'rthy Ph. 20p	155	21.2	7.0	2.5	6.4	7.7
Oct.	May	Macfarlane Gp.	146	6.9	†h3.2	2.5	3.1	16.6
July	Nov.	Macllellan 20p	45	4.10	d1.43	1.6	4.5	(9.0)
Aug.	Mar.	Macpherson (D.)	56	21.2	4.2	0.6	10.7	(13.8)
Oct.	Apr.	Magnolia Group	52	20.9	2.3	3.9	6.3	5.3
Apr.	Oct.	Man. Ship Can. £1	147	9.80	3.5	6.8	3.5	4.4
Oct	Apr	Marley	70	7.3	2.5	♦	5.1	♦
Feb.	Oct.	Marling Ind. 10p	37	13.12	1.08	6.7	4.2	3.8
Dec.	Jun.	Marshall L'ay. 'A'	25	4.10	2.8	1.9	16.0	(4.0)
Jan.	July	Marshall's Univ	50	7.6	0.1	—	0.3	—
Nov	May	Martin-Black	26	5.79	—	—	—	—
—		♥Matheson 7¾%	£116	30.6	Q7¾%	2.3	6.8	—
Jan.	June	Metal Box £1	188	29.11	11.55	1.2	8.8	(11.8)
Nov.	June	Metal Closures	117	28.9	5.7	♦	7.2	♦
April	Dec.	Metalrax Jestique	7	15.3	†0.5	—	‡	—

LEISURE—Continued

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
—		GRA Group 5p	15½	—	—	—	—	♦
May	Nov	Grampian TV A 10p	49	13.12	†3.25	3.8	9.5	4.0
May	Oct.	HTV Non/Vtg.	155xd	21.3	11.0	2.0	10.1	6.9
May	Oct.	Horizon	180xd	21.3	3.6	♦	2.9	♦
Jan	Aug	Intasun 10p	128	31.12	3.5	4.8	3.9	6.5
Jan	Dec	LWT "A"	167	15.11	11.08	1.1	9.5	13.4
—		♥Leisure Inds.	262	13.12	66.0	3.0	3.3	12.4
Jan	Jul	Leisuretime Int 10p	135	—	£1.54	♦	1.7	♦
June	Jan.	Mayn. Ag. M. 10p	110	31.12	8.75	1.6	11.4	8.0
Apr.	Dec.	Medminster 10p	57xd	21.3	†4.0	0.8	10.0	17.9
—		♥Mlnsfo Int 20c	95	—	—	—	—	—
Jan.	Sept.	Norton & Wrt. 10p	85	13.12	†d2.0	0.5	3.4	—
—		♥Owners Abroad	27½	—	0.5	♦	2.6	♦
June	Nov	Photax (Lon.)	41	30.4	‡3.5	3.8	‡	2.6
—		♥Pineapple Dnce S 10p	125	—	wd1.5	2.1	1.7	38.9
Sept.	Apr.	Pleasurama 5p	545	17.1	7.5	4.5	2.0	16.2
—		♥Radio City 'A' NV	145	31.12	g6.6	1.6	5.5	15.7
July	Jan	Riley Leisure 10p	170	13.12	24.1	1.7	3.4	24.5
Apr.	Nov.	Saga Hols. 20p	95	1.11	d3.73	—	5.7	—
May	Dec.	Sanctuary Grp 20p	430	15.2	¶d12.0	2.8	4.1	14.8
Dec	May	Scott. TV 'A' 10p	100	18.10	†7.0	3.8	10.0	3.7
—		♥SelecTV 10p	48	—	—	—	—	—
—		TSW 5p	15½	1.11	0.9	3.3	8.3	5.2
—		♥TVS N/Vtg 10p	34	—	—	—	—	—
Oct	Apr	Trident TV 'A' 10p	101	21.2	♦4.26	1.4	6.0	17.3
—		♥21st Century Dist	150	—	—	—	—	—
April	Sept	Webb (Jos.) 5p	16	2.8	d0.51	0.3	4.6	—
Apr.	Nov.	Zetters 5p	80	7.3	2.75	2.9	4.9	10.1

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
—	B.L. 50p	31	—	—	—	—	—
—	♥Coleman Mlne 10p	70	20.9	u1.5	3.2	3.1	(11.9)
Mr.Je.S.D.	Gen. Mts. Units	208	31.1	Q12c	—	3.9	—
Nov	Honda Motor Y50	252	11.83	tQ22%	8.6	1.2	26.5
—	Lotus Car 10p	41	9.11	—	—	—	—
—	♥Reliant Motor 10p	22	31.12	—	—	—	5.9
May	Volvo Kr50	£32½	27.5	vQ20%	♦	2.7	♦

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING ADVERTISING

PROPERTY

INSURANCES

LEISURE

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

INVESTMENT TRUSTS—Cont.

Finance, Land, etc.

OIL AND GAS

OIL AND GAS—Continued

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Finance

Diamond and Platinum

MINES—Continued

Central African

Australians

Tins

Miscellaneous

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
—		Admiral Mines	155	—	—	—	—
—		♥Anglo-Dominion	55	—	—	—	—
—		♥Anglo Utd. Dev.	81	—	—	—	—
—		♥Colby Res Corp.	85	—	—	—	—
Aug.	Feb.	Cons. Murch. 10c.	435	23.12	‡060c	1.9	‡
—		‡‡Explaura Gold	4	—	—	—	—
—		♥Highwood Res.	125	—	—	—	—
—		Homestake Mining $1	£16¾	—	Q40c	—	1.7
—		Northgate C$1	380	9.77	—	—	—
Jan.	July	R.T.Z.	518	1.11	16.0	1.6	4.4
Jan	July	Do. 9¾% Cn Uns Ln '95-2000	£116	1.11	Q9½%	23.9	†8.4
—		♥Sabina Inds C$1	27	—	—	—	—
May		‡Southwest Res 10p.	12½	13.12	—	—	—
—		♥Tara Expln $1	465	—	—	—	—

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap" Stock.
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♥ Not officially UK Listed; dealings permitted under Rule 163(4)(a).
- ✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 163(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♦ Not comparable.
- ♦ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ¶ No par value.

B.Fr. Belgian Francs. Fr. French Francs. §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Tax free. b Figures based on prospectus or other official estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1983-84. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1984. K Figures based on prospectus or other official estimates for 1982-83. M Dividend and yield based on prospectus or other official estimates for 1983. N Dividend and yield based on prospectus or other official estimates for 1982-83. P Figures based on prospectus or other official estimates for 1982. Q Gross. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL AND IRISH STOCKS

The following is a selection of regional and Irish stocks, the latter being quoted in Irish currency.

			IRISH		
Albany Inv. 20p	52	.....	Exch. 15pc 1983	£99¾	.....
Bertrams	17	.....	Nat. 9¾% 84/89	£85¾	.....
Bdg'wtr. Est. 50p	530	+35	Fnd 13% 97/02	£92½	.....
Craig & Rose £1	£12	.....	Alliance Gas	106	.....
Finlay Pkg. 5p	37	.....	Arnott	180	−5
Graig Ship £1	£19	.....	Carroll (P.J.)	95	.....
Higsons Brew	105	.....	Concrete Prods.	48	+1
Holt (Jos) 25p	900	.....	Heiton (Hldgs.)	13	.....
I.O.M. Stm. £1	85	.....	Irish Ropes	28	.....
Pearce (C. H.)	£14	+½	Jacob	65	.....
Peel Hldgs.	176	+2	T.M.G.	85	.....
			Unidare	40	.....

OPTIONS

3-month Call Rates

Industrials					
Allied-Lyons	15	House of Fraser	15	Utd. Drapery	7
BOC Grp	17	I.C.I.	24	Vickers	12
B.S.R.	6	"Imps"	10	Woolworth Hld.	15
Babcock	10	I.C.L.	8		
Barclays Bank	35	Ladbroke	16	Property	
Beecham	35	Legal & Gen.	28	Brit. Land	7½
Blue Circle	44	Lex Service	16	Cap. Counties	12
Boots	22	Lloyds Bank	35	Land Secs.	26
Bowaters	19	"Lots"	4	MEPC	17
Brit. Aerospace	28	London Brick	11	Peachey	14
B.A.T.	50	Lucas Inds.	12	Samuel Props.	10
Brown (J.)	4	"Mams"	12	Town & City	3
Burton Ord.	24	Mrks. & Spncr	16		
Cadburys	11	Midland Bank	30	Oils	
Courtaulds	8	N.E.I.	9	Brit. Petroleum	26
Debenhams	8½	Nat. West. Bank	38	Burmah Oil	12
Distillers	20	P & O Dfd.	14	Charterhall	5
Dunlop	5½	Plessey	50	KCA	8
Eagle Star	30	Racal Elect	45	Premier	4
F.N.F.C.	4	R.H.M.	6	Shell	35
Gen. Accident	30	Rank Org. Ord.	15	Tricentrol	22
Gen. Electric	24	Reed Intnl	26	Ultramar	42
Glaxo	45	Sears	9		
Grand Met	25	T.I.	13	Mines	
G.U.S. 'A'	50	Tesco	8	Charter Cons	28
Guardian	35	Thorn EMI	38	Cons. Gold	40
G.K.N.	15	Trust Houses	13	Lonrho	8
Hawker Sidd	30	Turner & Newall	4	Rio T. Zinc	42
		Unilever	65		

"Recent Issues" and "Rights" Page 16

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

A much calmer week

BY COLIN MILLHAM

Foreign exchanges were much calmer last week, following the realignment of the European Monetary System. The lack of agreement during the previous week end through the market into a very confused state on Monday morning, but there was no further strong speculative pressure against the French franc, and the eventual settlement was very close to the figures leaked from the finance ministers meeting in Brussels on Sunday. The revaluation of the Danish krone came as something of a surprise, since the currency had been on its floor against the D-mark the previous week, and the devaluation of the Irish punt may prove insufficient in the long run, with Irish inflation remaining at high levels and the currency now standing at little below parity with sterling.

On the other hand the Belgian authorities had made it very clear that they were not prepared to accept a devaluation of the Belgian franc, in spite of the fact that it had been outside its minimum allowed limit in recent weeks. The revaluation, and following cut in the Belgian bank rate was not too surprising therefore, although the size of the bank rate reduction was rather more than expected, and led to a further weakening of the currency.

The French austerity measures, announced on Friday, seemed fairly tough at first glance, but it remains to be seen whether the franc can remain strong against the D-mark in the coming months. Following the realignment the French franc, Irish punt and Danish krone were sold by the Bundesbank to prevent them rising above their ceilings against the D-mark.

Outside the EMS the dollar was supported by higher Euro-dollar interest rates, while sterling continued to weaken on fears of an oil price war. The Bank of England showed no sign of intervening to give heavy support to the pound when it fell to a record low of $1.4550 and DM 3.5150 on Thursday, giving encouragement to the London money market, which is still hoping that the next move in bank base rates will be downwards. Financial markets appeared to be unperturbed, accepting at present the Government view that the pound is the victim of a strong dollar and weak oil market.

EMS EUROPEAN CURRENCY UNIT RATES

	ECU central rates	Currency amounts against ECU March 25	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc ...	44.3862	44.3760	+0.02	−0.17	±1.5491
Danish Krone ...	8.04412	7.95317	−1.13	−1.32	±1.6419
German D-Mark	2.21515	2.23771	+1.02	+0.83	±1.0567
French Franc ...	6.79271	6.71036	−1.21	−1.40	±1.4018
Dutch Guilder ...	2.49587	2.51338	+0.70	+0.51	±1.4941
Irish Punt.........	0.71705	0.708313	−1.22	−1.41	±1.6696
Italian Lira	1386.78	1335.09	−3.73	−3.73	±4.1463

Changes are for ECU, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

OTHER CURRENCIES

Mar. 25	£	$		£ Note Rates
Argentina Peso ..	96,454-96,654	66,040-66,090	Austria	24.75-25.05
Australia Dollar..	1.6885-1.6845	1.1520-1.1525	Belgium	72.25-73.00
Brazil Cruzeiro...	607.50-609.60	415.46-417.54	Denmark	12.46-12.60
Finland Markka..	7.9790-8.0045	5.4640-5.4660	France	10.53-10.68
Greek Drachma...	120.348-123.401	83.40-83.70	Germany	3.51¼-3.55¼
Hong Kong Dollar	9.75¼-9.77¼	6.6810-6.6860	Italy	2075-2110
Iran Rial........	127.05*	84.00*	Japan	344-349
Kuwait Dinar (KD)	0.426-0.427	0.29207-0.29217	Netherlands	3.94¾-3.98¾
Luxembourg Fr..	69.90-70.00	47.89-47.91	Norway	10.48-10.58
Malaysia Dollar..	3.3600-3.3750	2.2990-2.3010	Portugal	138-155
New Zealand Dlr.	2.2375-2.2425	1.5325-1.5350	Spain	189¼-202½
Saudi Arab. Riyal	5.03-5.04	3.4395-3.4410	Sweden	10.94-11.04
Singapore Dollar	3.0550-3.0700	2.0930-2.0950	Switzerland	2.99¾-3.0¼
Sth. African Rand	1.5950-1.5970	1.0920-1.0935	United States	1.45-1.472
U.A.E. Dirham...	5.3630-5.3720	3.6710-3.6730	Yugoslavia	106-119

*Selling rates.

FORWARD RATES AGAINST STERLING

	Spot	1 month	3 month	6 month	12 month
Dollar	1.4605	1.45905	1.45655	1.45425	1.45225
D-Mark	3.5300	3.51125	3.4800	3.4380	3.3600
French Franc	10.5800	10.60	10.6225	10.76	11.03
Swiss Franc	3.0175	3.00125	2.9675	2.9205	2.8375
Japanese Yen	346.50	345.40	343.25	339.90	335.00

BANK OF ENGLAND TREASURY BILL TENDER

	March 25	March 18		March 25	March 18
Bills on offer	£100m	£100m	Top accepted rate of discount	10.2481%	10.1879%
Total of applications	£363.86m	£355.75m	Average rate of discount	10.2272%	10.1643%
Total allocated	£100m	£100m	Average yield	10.48%	11.43%
Minimum accepted bid	£97.445	£97.46	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	6%	16%			

CURRENCY MOVEMENTS

Mar. 25	Bank of England Index	Morgan Guaranty Change %
Sterling	78.1	−41.4
U.S. dollar	122.1	+12.0
Canadian dollar	91.0	−16.9
Austrian schilling	122.2	+31.2
Belgian franc	95.2	−0.4
Danish kroner	85.1	−8.8
Deutsche mark	131.4	+58.8
Swiss franc	149.9	+105.5
Guilder	119.5	+27.5
French franc	71.2	−22.4
Lira	52.4	−59.0
Yen	146.4	+39.9

Based on trade weighted changes from Washington agreement December 1971. Bank of England index (base average 1975=100).

CURRENCY RATES

Mar. 25	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.759986	0.634252
U.S. $	8½	1.07927	0.925056
Canadian $	9.47	*	1.13504
Austria Sch	3¾	18.3686	15.7445
Belgian F	11	51.6835	44.3550
Danish Kr	8½	9.27801	7.95317
D mark	4	2.61205	2.23771
Guilder	5½	2.93130	2.51338
French F	9½	7.82741	6.71036
Lira	18	1557.66	1335.09
Yen	5½	256.165	219.053
Norwgn Kr	9	7.78423	6.67891
Spanish Pta	—	146.997	125.086
Swedish Kr	9	8.12367	6.94856
Swiss Fr	4	2.22891	1.91228
Greek Dr'ch	20½	N/A	77.2885

THE POUND SPOT AND FORWARD

March 25	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	1.4565-1.4640	1.4600-1.4610	0.17-0.12c pm	1.19	0.42-0.37pm	1.08
Canada	1.7870-1.7945	1.7910-1.7920	0.23-0.13c pm	1.20	0.53-0.43pm	1.07
Nethlnd.	3.95-3.98	3.95¾-3.96¾	2¼-2⅛c pm	7.20	6¾-6⅜pm	6.44
Belgium	69.50-70.15	69.90-70.00	28-38c dis	−5.66	55-65dis	−3.43
Denmark	12.51-12.56	12.52-12.53	3½-6½ore dis	−4.73	8½-10dis	−2.93
Ireland	1.1140-1.1210	1.1160-1.1180	0.67-0.85p dis	−3.16	1.48-1.90dis	−5.87
W. Ger.	3.52-3.55	3.52½-3.53½	2¼-1¾pf pm	6.37	5¼-4¾pm	5.86
Portugal	140.75-143.25	141.50-142.50	875-2600c dis	−146.83	1325-3200dis	−63.73
Spain	198.25-199.35	198.80-199.00	120-240c dis	−10.86	380-535dis	−9.20
Italy	2099-2110	2099½-2101½	12-18lire dis	−8.57	37-44dis	−7.71
Norway	10.51-10.55	10.52-10.53	2½-3½ore dis	−3.70	8½-9½dis	−3.42
France	10.56-10.61	10.57½-10.58½	1½-2½c dis	−1.98	2¾-5¾dis	−1.61
Sweden	10.94-11.00	10.96-10.97	½ore pm-½ dis	—	⅞-1⅛ dis	−0.45
Japan	344-348	346-347	1.29-1.00y pm	3.81	3.50-3.30pm	3.92
Austria	24.75-24.95	24.83-24.88	12¾-10½gro pm	5.49	33¾-29¾pm	5.08
Switz.	3.00-3.03	3.01¾-3.02¾	1⅞-1⅝c pm	6.46	5¼-4¾pm	6.63

Belgian rate is for convertible francs. Financial franc 72.55-72.65. Six-month forward dollar 0.63-0.58c pm. 12-month 0.85-0.70c pm.

THE DOLLAR SPOT AND FORWARD

March 25	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4565-1.4640	1.4600-1.4610	0.17-0.12c pm	1.19	0.42-0.37pm	1.08
Ireland†	1.3050-1.3090	1.3065-1.3080	1.10-0.90c pm	9.18	2.35-2.00pm	6.66
Canada	1.2260-1.2280	1.2265-1.2275	0.02c pm-0.03dis	−0.05	0.01-0.06dis	−0.11
Nethlnd.	2.7070-2.7185	2.7070-2.7090	1.41-1.31c pm	6.02	3.75-3.65pm	5.46
Belgium	47.80-48.02	47.89-47.91	25-30c dis	−6.87	50-57dis	−4.46
Denmark	8.5750-8.6100	8.5750-8.5850	3¼-4¼ore dis	−5.23	6½-7½dis	−3.26
W. Ger.	2.4120-2.4240	2.4155-2.4165	0.98-0.93pf pm	4.74	2.86-2.81pm	4.69
Portugal	96.00-98.00	97.00-98.00	250-850c dis	−67.69	450-1450dis	−38.97
Spain	136.05-136.40	136.05-136.15	100-200c dis	−13.20	300-425dis	−10.63
Italy	1438½-1444	1438½-1439½	11-14lire dis	−10.39	30-34dis	−8.87
Norway	7.2050-7.2220	7.2050-7.2150	2.40-3.40ore dis	−4.38	7.50-8.50dis	−4.44
France	7.2350-7.2575	7.2425-7.2475	1.10-1.50c dis	−2.15	3.75-4.75dis	−2.34
Sweden	7.5000-7.5150	7.5050-7.5150	½-1ore dis	−1.20	2½-3dis	−1.46
Japan	236.30-237.60	236.95-237.05	0.53-0.48y pm	2.56	1.68-1.60pm	2.77
Austria	16.99½-17.03	16.99½-17.00½	6.40-5.60gro pm	4.23	18¼-15¾pm	4.00
Switz.	2.0590-2.0730	2.0645-2.0655	0.98-0.93c pm	5.55	2.94-2.89pm	5.65

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 49.65-49.75.

EXCHANGE CROSS RATES

Mar. 24	Pound St'rling	U.S. Dollar	Deutschem'k	Japanese Yen	French Franc	Swiss Franc	Dutch Guild'	Italian Lira	Canada Dollar	Belgian Franc
Pound Sterling	1	1.461	3.530	346.5	10.58	3.018	3.958	2101.	1.792	69.95
U.S. Dollar	0.685	1.	2.417	237.2	7.244	2.066	2.710	1438.	1.227	47.89
Deutschemark	0.283	0.414	1.	98.16	2.997	0.855	1.121	595.0	0.508	19.82
Japanese Yen 1,000	2.886	4.216	10.19	1000.	30.53	8.709	11.42	6062.	5.170	201.9
French Franc 10	0.945	1.380	3.336	327.5	10.	2.852	3.741	1985.	1.693	66.12
Swiss Franc	0.331	0.484	1.170	114.8	3.506	1.	1.312	696.1	0.594	23.18
Dutch Guilder	0.253	0.369	0.892	87.56	2.673	0.762	1.	530.8	0.453	17.68
Italian Lira 1,000	0.476	0.696	1.681	165.0	5.037	1.437	1.884	1000.	0.853	33.30
Canadian Dollar	0.558	0.815	1.970	193.4	5.906	1.684	2.209	1172.	1.	39.06
Belgian Franc 100	1.430	2.088	5.046	495.4	15.13	4.314	5.658	3003.	2.561	100.

FINANCIAL FUTURES

LONDON

THREE-MONTH EURODOLLAR
$1m points of 100%

	Close	High	Low	Prev
June	90.41	90.46	90.40	90.51
Sept	90.19	90.25	90.21	90.29
Dec	90.07	90.11	90.06	90.16
March	90.00	—	—	89.96
June	—	—	—	—

Volume 700 (1,615).
Previous day's open int. 3,644 (3,499).

THREE-MONTH STERLING DEPOSIT
£250,000 points of 100%

	Close	High	Low	Prev
June	89.82	89.88	89.80	89.85
Sept	89.93	89.98	89.90	89.95
Dec	89.94	89.96	89.90	89.97
March	90.00	90.00	90.00	89.93
June	90.05	90.10	90.03	90.05

Volume 412 (557).
Previous day's open int. 2,932 (2,984).

20-YEAR 12% NOTIONAL GILT
£50,000 32nds of 100%

	Close	High	Low	Prev
March	103-28	—	—	103-13
June	103-23	103-23	103-12	103-09
Sept	103-12	103-16	103-06	102-31
Dec	104-13	—	—	104-00
March	104-20	—	—	104-06

Volume 802 (1,383).
Previous day's open int. 2,231 (2,163).
Basis quote (clean cash price of 15½% Treasury 1988 less equivalent price of June futures contract) 8 to 16 32nds.

STERLING £25,000 $ per £

	Close	High	Low	Prev
June	1.4568	1.4582	1.4540	1.4617
Sept	1.4540	—	—	1.4595
Dec	1.4520	—	—	—

Volume 146 (505).
Previous day's open int. 745 (699).

DEUTSCHE MARKS DM 125,000
$ per DM

	Close	High	Low	Prev
June	0.4172	0.4174	0.4169	0.4185
Sept	0.4221	0.4222	0.4219	0.4237
Dec	—	—	—	—

Volume 128 (150).
Previous day's open int. 384 (411).

SWISS FRANCS SwFr 125,000
$ per SwFr

	Close	High	Low	Prev
June	0.4891	0.4900	0.4889	0.4891
Sept	0.4970	—	—	0.4954
Dec	—	—	—	—

Volume 18 (60).
Previous day's open int. 306 (319).

JAPANESE YEN Y12.5m $ per Y100

	Close	High	Low	Prev
June	0.4239	0.4250	0.4236	0.4255
Sept	0.4275	—	—	0.4289
Dec	—	—	—	—

Volume 115 (203).
Previous day's open int. 249 (305).

CHICAGO

U.S. TREASURY BONDS (CBT) 8%
$100,000 32nds of 100%

	Close	High	Low	Prev
June	75-24	76-23	75-21	76-15
Sept	75-08	76-06	75-05	75-30
Dec	74-28	75-24	74-24	75-16
March	74-17	75-15	74-16	75-05
June	74-08	75-01	74-07	74-28
Sept	74-00	74-23	74-00	74-20
Dec	73-25	74-16	73-25	74-13
March	73-19	74-09	73-19	74-07
June	73-14	—	—	74-02
Sept	—	—	—	—
Dec	73-06	—	—	73-28

U.S. TREASURY BILLS (IMM)
$1m points of 100%

	Close	High	Low	Prev
June	91.14	91.39	91.12	91.35
Sept	90.99	91.19	90.96	91.16
Dec	90.86	91.03	90.85	90.99
March	90.71	90.83	90.68	90.81
June	90.54	90.65	90.49	90.62
Sept	90.38	90.47	90.35	90.45
Dec	90.24	90.30	90.20	90.27
March	—	90.12	90.07	90.10

CERT DEPOSIT (IMM)
$1m points of 100%

	Close	High	Low	Prev
Dec	90.07	90.28	90.08	90.22
March	90.89	91.00	90.88	90.99
June	90.48	90.70	90.44	90.66
Sept	90.25	90.46	90.23	90.41

THREE-MONTH EURODOLLAR (IMM)
$1m points of 100%

	Close	High	Low	Prev
June	89.90	90.15	89.89	90.11
Sept	89.74	89.97	89.73	89.91
Dec	89.68	89.90	89.58	89.74
Feb	—	—	—	—
March	89.45	89.61	89.45	89.57

STERLING (IMM) $ per £

	Close	High	Low	Prev
June	1.4545	1.4600	1.4535	1.4575
Sept	1.4530	1.4580	1.4520	1.4575
Dec	1.4525	1.4555	1.4500	1.4560
March	1.4515	1.4550	1.4510	1.4565
June	—	—	—	—

GNMA (CBT) 8%
$100,000 32nds of 100%

	Close	High	Low	Prev
June	69-08	70-10	69-05	70-05
Sept	68-12	69-11	68-10	69-10
Dec	67-22	68-17	67-22	68-19
March	67-04	67-31	67-04	68-01
March	66-20	—	—	66-17
June	66-22	67-17	66-22	67-19
Sept	66-09	67-04	66-09	67-06
Dec	65-30	66-27	65-30	66-27
March	—	—	—	—
June	—	—	—	—
Sept	—	—	—	—
Dec	—	—	—	—

WEEKLY CHANGE IN WORLD INTEREST RATES

	Mar. 25	change		Mar. 25	change
LONDON			NEW YORK		
Base rates	10½	Unch'd	Prime rates	10½	Unch'd
7 day interbank	10 11/16-11	+1/8	Federal funds	8⅝-8⅞	−⅛
3 mth interbank	10¾-10⅞	−1/16	3 mth Treasury Bills	8.63	+0.22
Treasury Bill Tender	10.2272	−0.0629	6 Mth. Treasury Bills	8.66	+0.20
Band 1 Bills	10 5/16	Unch'd	3 Mth. CD	9.025	+⅛
Band 2 Bills	10½	Unch'd	FRANKFURT		
Band 3 Bills	10⅝	Unch'd	Lombard	6.00	Unch'd
3 Mth. Treasury Bills	10 21/64	+5/64	One Mth. Interbank	5.325	+0.05
1 Mth. Bank Bills	10 5/16	+1/16	Three month	5.325	Unch'd
3 Mth. Bank Bills	10 7/16	+1/16	PARIS		
TOKYO			Intervention Rate	12½	Unch'd
One month Bills	6.78125	Unch'd	One Mth. Interbank	12 7/16	−⅜
Three month Bills	6.84375	Unch'd	Three month	12 5/16	−⅛
BRUSSELS			MILAN		
One month	12⅛	−3	One month	19 1/16	+⅛
Three month	11¼	−3	Three month	19 5/16	+⅛
AMSTERDAM			DUBLIN		
One month	3⅝	−1/16	One month	20	+⅛
Three month	4	−1/16	Three month	16½	+1⅛

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, and band 3 bills to 63 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week. * Band 4 10¼.

MONEY MARKETS

Little reaction to the weak pound

Interest rates rose by about ¼ per cent on the London money market last week, but there was remarkably little reaction to the weakness of sterling on the foreign exchanges.

On Friday there was a very large shortage of £1,100m and the market was pleased when the authorities intervened in the early morning, providing assistance at unchanged dealing rates, and also entering into a repurchase agreement. On Thursday the shortage was in the region of £800m, which came as no surprise, with the market expecting some very large short falls of credit at the end of the week. Early intervention on Friday did not appear to be intended as any particular signal, but helped to keep trading calm when the pound threatened to plumb new depths against the dollar and the D-mark.

Market nerves were tested by the fall of sterling on several occasions, but there was no sign of upward pressure on base rates so soon after the cut to 10½ per cent on Budget Day. At the same time London interbank traders felt squeezed between the upward trend in New York rates on fears of a tightening of Federal Reserve credit policy, because of continuing problems about the money supply, and concern that the weakness of the pound would eventually produce some response from the Bank of England.

Despite these fears London interest rates held remarkably steady, reinforced by comments from the Prime Minister and members of the Cabinet that the weakness of the pound was a direct result of the dollar's strength against all European currencies, and the effects of sterling's status as a petro-currency.

As sterling lost ground various members of the market appeared to take differing views of the situation. Some banks were only too happy to sell bills on fears that the decline of the pound would eventually lead to higher interest rates, while several discount houses, who must be regarded as fairly close to the ground as far as official thinking is concerned, were prepared to buy paper in the opinion that interest rates are still more likely to fall than rise in the near future. The houses can always turn the bills over fairly quickly if events should move against them, but there is little sign of worry at the moment, and sentiment remains surprisingly good.

LONDON MONEY RATES

Mar. 25 1983	Sterling Certificate of deposit	Interbank	Local Authority deposits	Local Auth. negotiable bonds	Finance House Deposits	Company Deposits	Discount Market Deposits	Treasury Bills ⊕	Eligible Bank Bills ⊕	Fine Trade Bills ⊕
Overnight	—	10¼-13	—	—	—	10¾-11	10-10½	—	—	—
2 days notice	—	—	10¾-10⅞	—	—	—	—	—	—	—
7 days or	—	—	—	—	—	11-11⅛	—	—	—	—
7 days notice	—	10 15/16-11	10⅞	—	—	11-11¼	10½	—	—	—
One month	10 13/16-10 11/16	10⅞-11	10⅞	11⅛-11⅛	10 15/16	10 15/16	10½-10⅝	10½-10 11/16	10 9/16	11 3/16
Two months	10 13/16-10 11/16	10¾-10⅞	10⅞	11⅛-11	10⅞	10 15/16	10¼-10¾	10⅜-10 7/16	10 7/16	11 1/16
Three months	10¾-10 7/16	10¾-10⅞	10¾	11¼-10⅞	10⅞	—	10⅛-10¼	10 5/16-10⅜	10 7/16	10 15/16
Six months	10 11/16-10 11/16	10 9/16-10 11/16	10⅝	10⅝-10⅛	10¾	—	—	—	10 5/16-10⅛	10 9/16
Nine months	10 9/16-10 7/16	10 9/16-10 11/16	10⅝	10⅞-10½	10¾	—	—	—	—	—
One year	10⅝-10 9/16	10 7/16-10 9/16	10 7/16	10¾-10⅝	10¾	—	—	—	—	—
Two years	—	—	11	—	—	—	—	—	—	—

ECGD Fixed Rate Export Finance Scheme IV Average Rate for interest period February 2 to March 1 1983 (inclusive) 11.391 per cent.

Local authorities and finance houses seven days' notice, others seven days fixed. Long-term local authority mortgage rates nominally three years 11¾ per cent; four years 11½ per cent; five years 11½ per cent. ⊕ Bank bill rates in table are buying rates for prime paper. Buying rate for four bank bills 10 9/16-10½ per cent; four months trade bills 11 per cent.

Approximate selling rate for one month Treasury bills 10 15/32 per cent; two months 10 11/32 per cent; and three months 10¼ per cent. Approximate selling rate for one month bank bills 10½-10 17/32 per cent; two months 10½-10 13/32 per cent; and three months 10⅜-10 9/32 per cent; trade bills 10 23/32 per cent; two months 10 11/32 per cent and three months 10 11/32 per cent.

Finance Houses Base Rates (published by the Finance Houses Association) 11½ per cent from March 1 1983. London and Scottish Clearing Bank Rates for lending 10½ per cent. London Deposit Rates for sums at seven days' notice 7½ per cent.

Treasury Bills: Average tender rates of discount 10.2272 per cent. Certificates of Tax Deposit (Series 6). Deposits of £100,000 and over held under one month 10¾ per cent; one-three month 10½ per cent; three-six month 10½ per cent; six-12 month 10½ per cent. Under £100,000 10¼ per cent from March 16. Deposits held under Series 3-5 10½ per cent. The rates for all deposits withdrawn for cash 8 per cent.

INTEREST RATES

EURO-CURRENCY INTEREST RATES
(Market closing rates)

Mar. 25	Short term	7 days notice	Month	Three Months	Six Months	One Year
Sterling	10¾-11	10¾-11	10⅞-11	10 11/16-10 13/16	10⅝-10¾	10⅝-10¾
U.S. Dollar	8¾-9⅛	9-9¼	9 3/16-9 5/16	9 5/16-9 7/16	9 9/16-9 11/16	9¾-10
Can. Dollar	8½-9½	8½-9½	9 3/16-9 7/16	9⅜-9⅝	9⅝-9⅞	9⅞-10⅛
D. Guilder	3⅜-3½	3⅜-3½	3½-3⅝	4-4⅛	4 5/16-4 7/16	5 1/16-5 3/16
S. Franc	3⅛-3⅜	3⅛-3⅜	4¼-4⅜	3⅞-4	3⅞-4	3 15/16-4 1/16
Deutschem'rk	4⅜-4½	4¼-4⅜	4¾-4⅞	4 11/16-4 13/16	5 1/16-5 3/16	5¼-5⅜
Fr'nch Franc	13¼-13¾	12¼-12¾	12-12½	12-12½	14-14½	15¼-15¾
Italian Lira	17-21	16¾-22½	17½-21	17⅞-19⅛	18⅜-19⅜	18-19⅜
Belg. Franc Conv.	24-32	15-20	14¼-15½	13⅛-14	12½-13¼	12½-13
Fin.	13-13½	12½-13	12⅛-12⅜	12⅛-12⅜	12⅛-12⅜	12⅛-12⅜
Yen	7⅛-7⅜	7¼-7⅜	6⅞-7	6 11/16-6 13/16	6 9/16-6 11/16	6⅜-6¾
D. Krone	16-16½	16-16½	14¼-14¾	13¼-13¾	13⅝-14⅛	14¼-14¾
Asia $ (Sing.)	9-9⅛	8¾-9⅛	9⅛-9½	9 5/16-9 7/16	9 9/16-9 11/16	9¾-9⅞

FT LONDON INTERBANK FIXING
11.00 a.m. MARCH 25

3 month U.S. dollars		6 months U.S. dollars	
bid 9 7/16	offer 9 9/16	bid 9 9/16	offer 9 11/16

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK

Prime rate	10½
Fed funds (lunch-time)	8⅝-8¾
Treasury bills (13-week)	8.61
Treasury bills (26-week)	8.66

GERMANY

Lombard	6.0
Overnight rate	5.05
One month	5.30
Three months	5.30
Six months	5.35

FRANCE

Intervention rate	12.5
Overnight rate	12.875
One month	12.4375
Three months	12.3125
Six months	12.3125

JAPAN

Discount rate	5.5
Call (unconditional)	6.53125
Bill discount (3-month)	6.84375

SWITZERLAND

Discount rate	4
Overnight rate	2-3
One month	4⅛-4¼
Three months	3⅞-4

NETHERLANDS

Discount rate	3½
Overnight rate	3¼-4
One month	3¼-3¾
Three months	3 11/16-4 1/16
Six months	4⅛-4½

$ CERTIFICATES OF DEPOSIT

One month	8.90-8.95
Three months	9.00-9.05
Six months	9.20-9.25
One year	9.40-9.60

LONG TERM EURO $

Two years	10⅜-10⅝
Three years	11-11¼
Four years	11½-11¾
Five years	11½-11¾

SDR LINKED DEPOSITS

One month	8 9/16-8 11/16
Three months	8 9/16-8 11/16
Six months	8 11/16-8 13/16
One year	9 1/16-9 3/16

ECU LINKED DEPOSITS

One month	9-9¼
Three months	9 11/16-9 13/16
Six months	9 9/16-9 11/16
One year	9 9/16-9 13/16

Authorised Units—continued

Equity & Law Un. Tst. Mngrs. (a)(b)(c)
Amersham Rd. High Wycombe. 0494 33377

Euro Tst Ac	55.4	59.5	+0.5	1.45

Hexagon Services Ltd.
4 Gt St Helens. London EC3P 3EP. 0708 45322

AustFrrsGw	103.8	109.3	—	2.52
Brewin Cap	71.4	75.2	—	1.36
Brewin Grinc	68.1	71.7	—	3.74
CanGwthFd	94.1	101.4	—	1.09

Lawson Fund Managers Ltd (a) (c) (g)
43 Charlotte Sq. Edinburgh 2. 031-225 6001

Aust & Pac*	7.0	7.5	—	0.85
High Yield*	19.9	20.9	—	10.75
Do Accum*	20.2	21.2	—	10.75

*Dealing Thurs. ‡Dealing Fri.

The Money Market Trust
63 Qn Victoria St. EC4N 4ST. 01-236 0952

Call Fund	—	—	10.69	—
7 Day Fund	—	—	10.74	—

†Unauthorised—Sterling Deposit Fund.

Insurances—continued

Albany Life Assurance Co Ltd
3 Darkes Lane Potters Bar. 0707 42311
Pension Funds

EqPenFdAc	555.2	584.4	+3.4
Fix I Pen Ac	396.4	417.2	+1.6
GtMnPenAc	234.4	246.7	+0.2
InUMnPnAc	236.5	248.9	+1.1
NAmPnFdAc	123.0	129.4	+2.2
Prop Pen Ac	211.9	223.0	+0.1
Mpl Iv PrAc	479.5	504.7	+2.4

Commercial Union Group
St Helen's, 1 Undershaft, EC3. 01-283 7500

VarblAcMar26	—	132.92	−1.66	—
An Uts Apr 1	—	30.57	−0.19	—
Prime Series				
UK Equity	103.2	108.7	+0.1	—
Intl Equity	104.5	110.0	+0.2	—
Property	96.9	102.0	—	—
Fixed Int.	100.3	105.6	+0.3	—
Indx Lnkd Gt	95.1	100.2	−0.2	—
Cash	95.8	100.9	..	—
Hand-in-Hand				
Cash	117.4	123.6	+0.2	—
Fixed Int	132.0	139.0	−1.8	—
Property	134.5	141.6	+0.1	—
Nat West	169.6	178.6	−0.5	—

Henderson Administration
11 Austin Friars London EC2. 01-588 3622

High Inc Fd	132.1	139.1	+0.3	—
Gilt-Edg Fd	96.9	102.1	+0.4	—
Co Gwth Fd	138.0	145.3	+1.1	—
Technology	152.9	161.0	+0.5	—
Nat Res'ces	114.4	120.5	+0.4	—
Spec Sits Fd	181.0	190.6	−0.5	—
N Amer Fd	214.4	225.7	+1.8	—
Far East Fd	157.7	166.1	+0.3	—
Prop Fd	112.9	118.9	....	—
Managed Fd	176.8	186.2	+1.3	—
Far E Ps Ac	106.2	111.8	+0.3	—
Deposit Fd	....	....	....	—
Prime Rs Rb	104.4	109.9	....	—
UK Eqp Ac	96.8	101.9	+0.8	—
FxdIntPsAc	99.4	104.7	+0.5	—
N Am Ps Ac	107.4	113.1	+1.1	—

SecSitPenAc	106.7	112.4	+0.8	—
MgdPenAc	103.4	108.8	+0.9	—
ComPpPenAc	95.0	100.0	—	—
PmRsPpPsAc	95.0	100.0	—	—
Dep Pen Ac	95.0	100.0	—	—

Capital Unit Prices available on request.

Save & Prosper Group
4 Gt St Helens. London EC3P 3EP. 0708 66966

Gilt Pen Fd	176.0	186.3	+0.8	—
Dep Pen Fd	127.8	133.6	—	—
Gl ... F Fd	50.5	53.3	+0.4	—

Skandia Life Assurance Co Ltd
Frobisher Ho. Southampton. 0703 334411

Managed	147.9	155.7	+0.5	—
Equity	158.3	167.7	+0.7	—
Internal	173.3	182.4	+0.7	—
Nth Amer	107.6	113.5	+2.1	—
Gilt Plus	133.1	140.1	+0.3	—
Property	125.1	131.7	+0.1	—
Deposit	127.4	134.1	+0.1	—
Pens Mangd	174.1	183.3	+0.7	—
Pens Equity	184.4	194.1	+0.8	—
Pens Intl	205.7	216.5	+1.0	—
Pens Gilt Pls	184.8	188.0	+0.5	—
Pens Prpty	149.4	157.3	+0.1	—
Pens Depst.	152.6	160.6	+0.2	—

For prices of Capital Units and Guaranteed Basis Rates please phone 0703 334411.

Target Life Assurance Co Ltd
Target House, Gatehouse Road, Aylesbury, Bucks. Aylesbury (0296) 5941

U.S. Dollar	—	—	—	5.50
Swiss Franc	—	—	—	4.70
Deutsche Mark	—	—	—	3.20
Yen	—	—	—	2.40

TSB Life Ltd
PO Box 3, Keens House, Andover, Hants. SP10 1PG.

Managed 2 Fd	96.7	101.9	+0.4	—
Property Fd	95.1	100.2	+0.1	—
Fixed Int Fd	95.6	100.7	+0.2	—
Money Fund	95.1	100.2	....	—
Equity Fund	97.7	102.8	—	—
Equity Fund	98.3	103.6	+0.7	—

Offshore and Overseas—continued

CAL Investments (IoM) Limited
16 St Georges St Douglas IoM. 0624 25031

CAL CmdC	95.6	100.7	....	4.47
CAL Metal	94.4	99.4	....	—

Dealing days every Monday.

CAL Investments (Bermuda) Limited
PO Box 1022, Hamilton, Bermuda

CTR Fd	95.0	100.0	....	—

Dealing days every Monday.

Perpetual U.T. Managers (Jersey) Ltd
PO Box 459, St Helier, Jersey. 0534 74517

Offshr Gwth	50.99	1.063	—	2.00

Rothschild Asset Management (C.I.)
St Julian's Ct, St Peter Pt, Guernsey. 0481 26741

OC International Reserves Ltd

Bel Frs	BFr828.68	+0.21	11.60
Canadian $	C$33.665	+0.005	7.52
D-Mark	DM50.010	+0.005	3.93
Dutch Guilder	Fls49.535	+0.005	3.44
French Frs	FFr155.945	+0.025	10.54
Italian Lira	L34.800	+1.0	17.17
Japanese Yen	Y6139.13	+1.01	6.03

Singapore $	S$61.915	+0.015	7.84
£ Sterling	£13.833	+0.004	9.80
Swiss Francs	SFr45.23	+0.003	2.74
U.S. $	$28.405	+0.005	8.25

Daily dealings.
For other Rothschild Offshore Funds see Offshore and Overseas section.

Schroder Mngt Services (Jersey) Ltd
PO Box 195, St Helier, Jersey. 0534 27561
Schroder Money Funds Ltd.

Sterling	£13.5022	—	—
U.S. Dollar	US$26.3378	—	—
D-Mark	DM50.3716	—	—
Swiss Franc	SFr50.1147	—	—

Tyndall-Guardian Management Ltd
PO Box 1256 Hamilton, Bermuda.

T-G Am	$21.76	—	....
T-G Money	20.63	—	....
T-G E'bond	$15.58	—	....
T-G Com	$22.43	—	....
T-G Mort	C$16.81	—	....
T-G O'seas	$10.74	—	....
T-G Pacific	Y1,744	—	....
T-G WallSt	$22.74	—	....

FINANCIAL TIMES SURVEY

ITALY

A dramatic reduction in left wing terrorism has made Italy more peaceful than for years. Italian industry is well placed to benefit from a world economic recovery but the government still faces difficult decisions on bringing inflation and public spending under control

Hugh Routledge

A WORD IN YOUR EAR: Sig Emilio Colombo, Foreign Minister, confers with Sig Amintore Fanfani, Prime Minister. Sig Fanfani projects a tough and effective image, standing him in good stead for tackling the economic difficulties now facing Italy

"MANY ITALIANS mourn the fact that they are no longer subjects of the Austro-Hungarian empire," the American economist J. K. Galbraith told an audience in Bologna recently. It was one of those less than tactful remarks that contain more than a grain of truth: Italians, particularly those from the formerly Austrian-run north and east of the country, do sometimes hanker after a hazy memory of honest, orderly Austrian rule, and pine for the low inflation, low unemployment and social peace of Austria today.

BY JAMES BUXTON

For justification they point to Italian governments that come and go without tackling the serious problems, parliaments that pile up impractical, unfinancable legislation, bureaucrats using the methods of the 18th century, public services on the point of breakdown, political interference in almost every institution in the country, and successive scandals that seem to touch almost everybody.

Then there are the almost daily reports of grotesque murders, spectacular swindles, the ruthless expansion of organised crime, frequent lethal but usually avoidable disasters and the disturbing but baffling revelations of inquiries into sinister and impenetrable mysteries. Surely, the argument runs, we Italians are not capable of governing ourselves.

And yet, in the centenary year of the Birth of Mussolini, the Italian republic is still in good health. It has given Italy a long period of uninterrupted prosperity, making the average one in Europe, and it has allowed the dynamism of individual people and cities to flourish as at almost no time since the Renaissance.

Italy is usually turbulent, but what does one expect from a country which is part central European, part Mediterranean, which has been under united government for less than 120 years and has industrialised practically from scratch in the past 40 years? The ancient Romans found Italy harder to govern than their other European provinces. Governments are weak and financially profligate, but this may be the only way of reconciling the enormous differences of wealth and character between north and south, and the political divisions between left and right.

At the moment Italy is calmer than it has been for several years. Left wing terrorism, which laid an almost continuous pall of sadness and frustration over the country, has been badly wounded, thanks to its own contradictions and a belated improvement in efficiency on the part of the authorities. The more relaxed atmosphere is palpable.

After some nervous moments around the turn of the year there is a kind of truce on the labour front, and the unions have for the first time permitted a small reduction in wage indexation—an issue that was previously taboo. The Government which came in last December under Sig Amintore Fanfani, the 75-year-old Christian Democrat veteran, shows rather more cohesion and determination than its predecessor under the Republican Sig Giovanni Spadolini. Sig Sandro Pertini, the 86-year-old President, continues to personify the Italian state in a way that none of his predecessors achieved.

But the assertion that everything is all right should not be taken too far. The economy is in a mess: Italy looks increasingly the odd man out among the industrial countries with its 16 per cent inflation rate and, if anything, still falling employment.

This is because successive governments tried to delay or mask recession, financing the balance of payments deficit with foreign loans and refusing to cut domestic spending, which was beginning to get out of control anyway thanks to the lavish pension and welfare commitments taken on in the late 1970s.

Attempts to cut the public sector deficit, last year making up 15.6 per cent of GDP compared with 3 or 4 per cent in most industrial countries, usually result in higher indirect taxes and charges which fuel inflation—itself reinforced by indexation of almost everything.

Agreement

The agreement in January on the scala mobile and wage rates for the next three years will cut employers' labour costs a little, and the latest devaluation of the Lira in the European Monetary System will help Italian competitiveness when the expected upturn in the main industrial economies arrives in the wake of the oil price fall. Much of Italian private sector industry has been restructured so it should be in a reasonably strong position, while the traditionally successful sectors like shoes, clothing and textiles continue largely to defy Far Eastern competition.

How long these industries, based on immensely hardworking and imaginative entrepreneurs supported by a network of out-workers in the submerged economy, can produce the wealth to sustain an ever more voracious state sector, where industrial restructuring has been far slower, is one of the eternal unanswered questions about Italy. Nor can Italy's relative weakness in high technology industries be ignored. But because of the immensity of the public borrowing requirement—a motor for high consumption and inflation—the authorities will not be able to permit any domestic reflation this year.

The political immobility at the root of the economic situation is due to the existence of a political system in which the large opposition Communist Party has always been excluded from power, leaving the permanently ruling Christian Democrats and their changing allies of the centre-left to use what levers of power the Republican constitution, designed to prevent the return of fascism, permits.

Without the cleansing effect of being in opposition the ruling parties extend their tentacles and compete viciously in areas where in other countries party politics do not intrude.

The competition for votes and favours is so intense that government finds it far safer to spend money to protect jobs and keep people happy than to save.

Anomalies

Almost uniquely in Europe, Italian governments in the last few years have done almost nothing to lower people's economic expectations. Any nibble at the costly anomalies of the welfare state tends to run foul of some party's interest group and is fiercely contested in government and outside: witness a recent row when the Government tried to change a provision which allows female state employees in certain circumstances to retire on full pension after only 11 years service—which came to light when a 29-year-old woman became a pensioner!

Sig Giovanni Spadolini certainly raised some of the problems and increased the stature of the Prime Minister's office during his 17 months as Italy's first non-Christian Democrat head of Government since 1946. But he was prevented from doing much—except about terrorism—by the conflicting jealousies of his Christian Democrat and Socialist coalition sponsors.

Sig Fanfani, who last headed a government in 1963 but has remained an influential and skilful politician, has already taken firm action to hold down spending and appears a little readier to do unpopular things than his predecessor. With the success of getting the scala mobile agreement behind him, it is widely expected that his Government will go on until the end of the present legislature in June 1984. Anything could happen in the meantime, however.

Whether this just means an extra year of electioneering (which has been going on for nearly two years already) or a chance to make some serious reforms is unclear. Drastic action is needed if next year's public sector deficit is not to break all bounds, and the Prime Minister has already warned his party of this.

But can a government touch what is the untouchable—like pensions—in an election year? Will this be another government that does just enough to keep the show on the road, or

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Economy

Social affairs and society

Industry

Editorial Production: Mike Smith

Layout: Phil Hunt

Talk of a more active foreign policy is backed by only limited action, says **Robert Fox**

Spending axe hits hopes of widening armed forces' role

WITH THE sending of 1,500 Italian troops to form part of the Lebanon peace-keeping force last year, Italy's armed forces undertook their most important deployment outside their national territory and outside the North Atlantic Treaty Organisation since Nato was formed.

Italians are proud of their troops, paratroopers of the 'Folgore' brigade and marine commandos. Strategists talk of new roles for the Italian armed services in the Mediterranean and beyond in support of a more positive stance in foreign policy. There is talk of training new all-professional tri-service formations to act as a rapid-deployment force somewhat on the lines of Britain's Falklands task force.

As units of the U.S. Sixth Fleet have been moved to the Indian Ocean the Italian armed forces have tried to fill the gap in patrolling the Mediterranean. From the beginning of next year Italy will start installing 112 Cruise Missiles based on her soil at Comiso in Sicily as part of the medium range Nato missile deployment. In the short term the Italian armed forces seem more determined than ever to give value for money in their duties within Nato, and in taking new responsibilities beyond Italian shores.

Sadly, however, the problems of the Italian services bear a familiar look. There is still very little action to back up the talk about the new intentions and the new foreign policy. The despatch of the first peace-keeping force to the Lebanon last August was emblematic of these problems: mechanical troubles with the aged assault ships Caorle and Grado meant that the journey from Brindisi took about a fortnight.

Weaknesses

In the first days of the deployment weaknesses in command and control and logistical support were revealed. These will need to be put right if Italy is to contemplate setting up her own rapid intervention units. Things went much more smoothly on the second deployment, however.

Now even bigger questions about the future of defence policy in Italy have been raised by the announcement from Sig Lelio Lagorio, the Socialist Defence Minister, that the military budget is to be cut by L950bn from the total L11,500bn allocated for the current year. This is the Defence Ministry's contribution to the demand for austerity in the 1983 budget.

On the whole, Sig Lagorio has enjoyed good relations with the six military staffs which run the Italian armed forces. Now many staff officers admit despair, particularly when they recall that Sig Lagorio himself last September called the Italian army "the least-trained army in Europe" and warned that further cuts could lead to "irreversible decline" in the capability of the forces.

The cuts are expected to reduce the army by a further four or five brigades and the navy and the air force together by 3,000 men. Programmes for the Aermacchi AM-X fighter and two new Super-Audace class destroyers are likely to be put back. The allocation of L250bn for the "civil protection" force, which would have a dual civil defence and disaster intervention role, is also expected to be delayed, though it has been requested since the Irpinia earthquake of November 1980.

In sum the new cuts mean the armed forces' 10-year modernisation programme launched in 1975 is not likely to be fully effected before 1991. Despite the increased attention being given to the forces, the problems remain those of pay, conditions of service, procurement, training and deployment. In the short term there are other gaps, including the shortage of new generation anti-tank weapons, anti-aircraft defence systems and radar cover for southern Italy.

DEFENCE EXPENDITURE

	$m	$ per capita	% of Government spending	% of GNP
1975	4,700	84	9.7	2.6
1980	9,579	168	5.4	—
1981	8,769	153	5.6	2.5

Source: International Institute for Strategic Studies.

Although Italian defence spending has more than doubled since 1975 it has declined both as a proportion of total spending and as a proportion of gnp

Faced with a further round of cuts the chief of defence staff, General Vittorio Santini, last summer publicly offered his resignation. Last summer he refused the chairmanship of the Nato Chiefs of Staff Committee because he found the Italian predicament so pressing.

A large part of his defence forces' problems are produced by Italy's geographical position in Nato "on the periphery of the central sector, but central to the southern sector (the Mediterranean)," as Brigadier General Gianluigi Caligaris, a former policy adviser in the defence staff, puts it.

This makes it difficult to combine with Nato units of other countries for training and "the training exercises tend to get less and less meaningful and realistic."

Gen Caligaris would like Italy to create her own specialised forces for rapid intervention both in and outside Nato for Mediterranean security and beyond. It could be based on the 'Folgore' parachute brigade and the five Alpini brigades. Yet one of these is likely to be cut.

New roles

Gen Caligaris suggests that Italy could provide forces for the American, British and French force patrolling the Gulf and possibly even for a buffer force in the Horn of Africa between Ethiopia and Somalia. More practical is the suggestion for a rapid deployment force within Italy itself particularly in the south of the country. Already Italy is the guarantor of Maltese independence following the incident in which a Libyan submarine appeared off a Maltese oil rig two years ago.

The demands for new roles for Italian defence show up the gaps in the present structure and training of the armed forces, particularly the army. Now standing at roughly 260,000 men, only 17 per cent are professional soldiers. At NCO level a large proportion of these are desk-men and not described by their officers as being in the first flush of youth. Pay and conditions, particularly in housing, cannot match the standards of other corps such as the Carabinieri and the state police, let alone come near an industrial wage.

Recruitment of career officers from the north of Italy is proving difficult and the rewards of those who stay in are meagre. A lieutenant colonel of cavalry of some years standing earned L1,100,000 a month net (about £525) at the end of last year. A British major with second year seniority would be earning nearly £200 more per month.

A senior sergeant driver in the state police would also receive a salary of about £525 net per month, the same as the colonel. Police pay has risen considerably since the state police was demilitarised in 1981 and allowed union representation.

Low pay is blamed for the rapid turnover of air force pilots. This month a decree has been rushed to Parliament to pay pilots a monthly indemnity of L700,000 (roughly £330) for flying.

Roughly 45 per cent of defence spending in Italy goes on pay for the 370,000 men under arms (69,000 in the air force, 44,000 in the navy). Conscripts still receive only L2,000 a day. Italy still spends a lower proportion of public expenditure on defence than any Nato allies except Luxembourg and Canada. In 1981 it spent 5.6 per cent of public expenditure against Britain's 12.2 per cent, the U.S.'s 25.3 per cent and Germany's 28.2 per cent.

Aggressive

The defence cuts are likely to mean longer lead-ins for equipment programmes such as the AM-X fighter, full equipping of squadrons for operational flying with the MRCA Tornado, shortly coming into service, and supply of Milan anti-tank systems for the army.

On the commercial side the defence industry presents a more aggressive picture in terms of sales, projects in hand and technical expertise. Italy is the fourth largest exporter of arms in the West, and in real terms it is likely she is doing at least as well as Britain, nominally in fourth place, according to defence industry executives in Rome.

But former serving officers like General Caligaris are critical not so much of what is procured by the Italian armed forces under the present methods, but the methods of procurement themselves. "We operate too much in a single service spectrum," says General Caligaris, "each service buying what it wants without co-ordinating with the others."

Thus there are airborne forces but only 10 C-130 long-range transports to carry them. The Aeritalia G-222 transport would need refuelling on operations outside Italy.

With the restricted funding available it sometimes seems astonishing that the Italian forces achieve the standards of efficiency now being attained by the Bersaglieri, the San Marco Battalion and the 'Folgore' paratroopers in Beirut. But whatever the talk may now be in Rome and Brussels of a new tactical role for Italian forces outside Nato and beyond the Mediterranean, the new defence spending restrictions announced by Sig Lagorio seem to underline that Italy's defence commitment is likely to be focused firmly on Nato and on the defence of the Italian territory itself.

Ciriaco de Mita and Enrico Berlinguer: two party secretaries who will decisively influence future political trends

Sig de Mita: "dull image belies a sharp brain"

Still facing the really big test

AT FIRST glance Ciriaco de Mita, the 55-year-old deputy from Avellino, cuts an unlikely figure as the man to give Italy's natural party of government, the Christian Democrats, a face-lift and restore their fortunes at the polls.

Last May he was elected Party Secretary from the floor of the National Congress held in Rome in the first direct election for the leadership.

His accession had been engineered for a year by his supporters. It was clinched by what one newspaper called "the masterpiece of all political deals"—an alliance forged between three of the party's most powerful grandees, two former Prime Ministers, Sig Amintore Fanfani and Sig Giulio Andreotti, and the former secretary Sig Flaminio Piccoli.

Since his election Sig de Mita has achieved some impressive results and he has won over many party members who opposed his election.

New faces

The first achievement was a complete change of key staff running the party machine. A Christian Democrat is once again Prime Minister, with Sig Fanfani replacing the Republican Sig Giovanni Spadolini who had held the office for 17 months.

Sig de Mita is credited with bringing new faces to the Government, in particular that of the 39-year-old Treasury Minister Sig Giovanni Goria, and in part for successes in the labour and economic field.

After years of party bickering and discussion with the unions, the dynamic Labour Minister Sig Vincenzo Scotti has achieved a breakthrough in reducing the cost of labour by restricting Italy's unique wage indexation system, the scala mobile. Under Sig de Mita's leadership the party is beginning to gain in the opinion polls after months of battering by the Socialists led by the ebullient Sig Bettino Craxi.

Despite his claims to be launching "a new Christian Democracy," Sig de Mita does not enjoy a modern image. He is a poor performer on television, for example.

Close party supporters say the dull image belies a sharp brain and the calculating ability of a master tactician. "He is a shy man who talks a lot, thinks a lot, and always takes the right, decisive course of action," says one of his staunchest allies, Sig Riccardo Misasi.

Sig de Mita can hardly claim to be one of the new men of his party. He has been part of the machine at provincial and then national level for 30 years.

He was born in the little village of Nusco, which has a registered population today of 1,864 and sits high in the mountains of Irpinia, 40 km from Avellino, an area ravaged by the 1980 earthquake.

One of seven children of the local tailor, he was the bright boy of the parish put forward by the priest to debate with the visiting candidates in the referendum campaign of 1946. The break came with a scholarship to the Catholic university in Milan, where he stayed as an assistant in jurisprudence after graduation.

There followed a brief period in the research department of the energy agency ENI. Since then it has been a life of politics. He became provincial secretary for the party in Avellino in 1958, and was elected to Parliament for the first time for Benevento-Avellino-Salerno in 1963 with 67,000 first preference votes. By the elections of 1979 there were 169,000 first preference votes, one of the highest tallies for any party notable.

He has headed three important ministries: industry, foreign trade, and the Mezzogiorno.

In private Sig de Mita is a man of simple tastes. As a student he was an addict of new wave films by men like Roberto Rossellini and westerns by John Ford. A wide reader, he has the image locally of being an intellectual though he enjoys playing traditional card games like "scopa" and "tressette" which men play for hour upon hour in the draughty bars of the mountain villages of Irpinia.

His main base is in Rome where he lives with his wife Anna Maria, their son and three daughters.

Orthodox

Despite his image as an orthodox Catholic family man, Sig de Mita is said to have a more "laicised" vision of his party's future than many contemporaries. In 1952 he was co-founder, with the late Giovanni Marcora, among others, of the "sinistra di base" operating on the left of the party.

He has been accused of being too friendly to the Communists in the past, and in 1969 was a proponent of the "constitutional pact," a pale fore-runner of Sig Berlinguer's "historic compromise."

His vision was nothing like as elaborate as that of Sig Aldo Moro in trying to move the Communists toward the constitutional centre of Italian politics so they could be an alternative party of government.

Nonetheless he does have the simple vision of the political scene dominated by two poles. The one is the Christian Democracy, to which the small lay parties are attached whether in a government coalition or not, the other is the Communists. Even the socialists, he argues, can only offer variations on a theme inside the Christian Democrat-led grouping.

By his peculiar form of leadership Nusco's brightest scholar has already achieved much in 10 months, in particular in restoring party fortunes at the opinion polls. But Sig de Mita's aides know that the real test of his leadership will come with the next general election, now likely to be next spring.

Robert Fox

Robert Fox has covered Italy as a special correspondent for the BBC for seven years. He has temporarily been a special features writer for the Milan newspaper Corriere della Sera, and last year covered the Falklands War for the BBC with the Task Force.

Hugh Routledge

Sig Berlinguer: a steely grasp on the Communist Party machine

Building up a 'third way' for democratic socialism

HE ALMOST always wears a tweed jacket, a scruffy jersey and an elderly tie. He walks with rather a shuffle and his figure is a little bent. His face is sensitive and rather feminine, and his expression seems permanently sad.

Enrico Berlinguer, the 61-year-old leader of the Italian Communist Party PCI, does not look at all one of those hard, blank-faced men associated with Communist parties, even in Western Europe. Yet his rather mournful and untidy appearance, which make him an appealing figure, especially to women with protective instincts, masks a steely grasp of the ways of the Communist Party machine, which brought him to power 11 years ago and which he continues to master.

If he looks sad, it may be because he has quite a lot to be sad about. The party is by far the largest Communist party in Western Europe and easily the second biggest party in Italy. Yet it looks a long way from gaining power, both its membership and its vote are declining, and it projects a rather dull image in contrast to the sprightly impression it made in the 1970s. But in a country where power is so fragmented the large Communist Party is crucial to stability and can never be ignored.

Sig Berlinguer led the party to its greatest electoral success—the 34 per cent of the vote it won in 1976—and he guided it through three years of increasingly close Parliamentary co-operation with the Christian Democrats, in pursuit of the goal of the historic compromise — the idea of the PCI coming to power in coalition with its Catholic rival.

However, although the Christian Democrats used Communist support to bring the economy under control in the wake of the first oil crisis, they refused to concede the party ministerial posts. The Christian Democrat architect of co-operation between the two parties, Aldo Moro, was kidnapped and killed by the Red Brigades in 1978 and everything collapsed in 1979.

The experience was an unhappy one for the party, which turned against the historic compromise and lost badly in the 1979 elections, its vote falling to 30 per cent. Sig Berlinguer has gradually established an opposite strategy, named the "democratic alternative"—the idea of the Communists coming to power as an alternative to the Christian Democrats, probably in coalition with the Socialists.

At the same time Sig Berlinguer has steered the party away from the Soviet Union, abandoning the Soviet model of development in favour of the vaguely defined "third way" — somewhere between east bloc communism and Scandinavian social democracy. The party insists on its democratic credentials and accepts the existence of Nato but cannot completely tear itself away from Moscow. The party grappled with these eternal issues at its recent congress in Milan.

Authoritarian

But the issue on which Sig Berlinguer was not prepared to yield in Milan was on the request for a loosening of the near-authoritarian internal structure of the party—the system known as "democratic centralism." Sig Berlinguer has lived with and operated this system almost all his life: "He registered as a member of the directorate at a very early age," a colleague once said of him. Sig Berlinguer joined the party in 1943 and spent four months in prison in 1944—a term that might have been longer had not his father, a lawyer of a good Sardinian family, succeeded in securing his release. He himself lives in a smart residential part of Rome and is married with three children.

The power of the Communist Party is wielded sparingly but often effectively: last summer the Communists, not wanting the elections towards which the Socialists were heading, threatened to abstain in Parliament, thus forcing the Socialists to back down. In January the party provoked strikes and demonstrations against "austerity" and the possibility of modifying the scala mobile wage indexation system. But the CGIL Union, two thirds of whose leadership is Communist, signed the agreement and took the wind from the party's sails.

The democratic alternative will simply be an abstraction until the Socialists feel strong enough to shift from the Christian Democrats (with which they are presently in coalition) to the Communists without becoming the junior partner. But any serious reforms of the constitution, of institutions, or even large cuts in real spending, cannot be carried out without the Communists.

So far recent governments have avoided turning to them. But they still might, and Sig Berlinguer will then need all the power that party discipline gives him to take his party with him.

James Buxton

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James Buxton on the subtle change in Italian politics

Why the election talk has stopped

FOR THE first time for two years Italian politicians are not talking about the prospect and desirability of early general elections. The conventional wisdom, endorsed by the party leaders in government, is that the Government of Sig Amintore Fanfani will go on until the present legislature ends in June 1984.

That does not mean that there will not be early general elections: circumstances can suddenly change and Italian governments can fall at any minute. Nor does it mean an end to two years of electioneering: there is an important set of local elections coming up in June.

However, the absence of talk about general elections does mean that neither of the main governing parties, the Christian Democrats and the Socialists, presently considers it in its interest to press for elections, or at least to be seen to press for them. That is a reflection of the subtle changes in Italian politics over the past year which have seen the ending of the prime ministership of Sig Giovanni Spadolini, the first non-Christian Democrat since 1946, and the return to the prime ministership after a 20-year gap of the 75-year-old Sig Fanfani.

Sig Spadolini, leader of the centrist Republican Party which has only 3 per cent of the vote, came to power in

Sig Fanfani's Government is expected to go on until June 1984

June 1981 as a result of the impasse caused by the inconclusive general elections of 1979. Those elections left the Christian Democrat vote steady at 38 per cent, but saw the Communist vote decline to 30 per cent and left the Socialists with almost 10 per cent—enough to be indispensable in coalition building but not enough to satisfy the ambitions of the Socialist Party leader, Sig Bettino Craxi.

Sig Craxi would probably like to make the Socialists the moderate Left-wing alternative to the Christian Democrats, displacing the Communists. That prospect is a long way off, but *he has brought the party nearer* the centre of the ideological spectrum (it dropped the

Sig Spadolini: he was a popular Prime Minister

hammer and sickle as its symbol *in favour of the carnation*) and he has established for it a reputation as a party of fresh ideas though that reputation has lately been tarnished by opportunism, ruthless placemanship involving the state energy company ENI and scandals in municipal administration.

While the Socialist Party was rising (it gained 15 per cent in the local elections of mid-1981) the Christian Democrats were falling, battered by poor management, lacklustre prime ministers, and by national scandals for which it had to take most of the blame simply because it had been in power so long.

Sig Spadolini came to power when the Christian Democrats *had run out of plausible prime* ministerial candidates but did not want to let Sig Craxi take over. For Sig Craxi, the prime ministership of the Republican Party leader was acceptable as it set the precedent of a prime minister from one of the lay parties of the centre.

While being careful not to upset either of his powerful sponsors Sig Spadolini became a remarkably popular and in some ways effective prime minister, constantly in the public eye, and pinpointing, if not always dealing with, the important issues. He gave the Italian Government a stature both with Italians and foreign powers which it had not had for years, and his first Government, against all the odds, was the *longest lasting* of the present parliament.

But his effectiveness was

Sig Craxi : brought his party nearer to the centre

curbed by the competing *interests* of his major coalition partners, with the Socialists particularly reluctant to take responsibility for unpopular measures on the eve of possible elections. The Prime Minister's time was consumed by ultimately futile mediation between the two parties, or even between individual ministers.

In the spring of last year the Socialists narrowly failed to find a plausible pretext on which to bring down the Government and go into elections. Meanwhile at the Christian Democrat party congress in early May, Sig Flaminio Piccoli, the party secretary who seemed to be so often outsmarted by Sig Craxi, left office. The party, choosing its secretary for the first time by conference vote rather than by cabal decision, elected Sig Ciriaco de Mita, as secretary.

Sig de Mita belongs to the party's left wing which traditionally sympathises more with the Communists than the Socialists. His victory was partly due, however, to Sig Fanfani, who put the weight of his faction behind him, despite being on the right of the party. The new leader immediately began to stand up to the Socialists. He also made it clear that he regarded the Communists as an alternative to, not a potential partner of, the Christian Democrats, and he appeared to support economic policies of "rigour" to meet the economic situation.

Sig Craxi then blundered, allowing himself to be persuaded to bring down the Government quite unexpectedly in the usually placid month of August. At one stage elections in the autumn looked inevitable, and might have been a good thing, if only to end the electioneering that prevented any serious surgery on the economy.

But Sig Craxi had failed to bring the other centre parties—notably the Social Democrats, also in the Coalition Government—along with him, and the Communists, not wanting elections either, threatened to abstain in Parliament, which would have made a Socialist departure from the Government irrelevant. The Socialists were humiliatingly obliged to climb down, and the second Spadolini Government, totally identical in composition and cabinet to the first, took office.

Sig Spadolini might have done better for his reputation and his party to have got out while the going was reasonably good. The second Government lasted less than three months, collapsing because of renewed ministerial bickering over the economy. Sig Spadolini retired from the wicket and Sig de Mita put in Sig Fanfani to bat for the Christian Democrats. Sig Spadolini's Republicans refused to join the new government, saying its programme was too feeble.

Why should this elderly but still highly energetic man, who was first a minister in 1947, and who headed four governments between 1954 and 1963, wish to return to Palazzo Chigi, the prime minister's residence?

Agreement on the scala mobile *has changed the* political map

As president of the Senate and a powerful Christian Democrat baron he had been biding his time, nursing the ambition to return to office *at a time of* difficulty (it has been said that he sees himself as a potential de Gaulle in Italian politics), and he has also long sought to become President of the Republic.

The Christian Democrats flanked their experienced Prime Minister by a cabinet of youngish ministers. Even so it looked at the time that Sig de Mita had in mind a Government that would only ride things over until the spring, when elections could be held in which the *Christian Democrats might* expect to do better against the Socialists than before.

As for the Socialists, Sig Craxi subscribed only with some misgivings to a programme which, though watered down, still offered reasonably tough action on the economy. With his party showing some signs of division and the findings of opinion polls indicating a fall in the party's support, he appears to have decided not to press for early elections—mindful of the widely held belief that the party which precipitates elections in punished by the electorate.

The new Government immediately made itself unpopular, introducing decrees at the turn of the year to raise more revenue to keep the public sector deficit in check, even though they went only a little further than measures introduced in a different form by Sig Spadolini. Tension rose too as the long-running negotiations on wages and the *scala mobile* wage indexation system approached a climax. There was even a small riot, the first in more than a decade, outside Palazzo Chigi.

But the conclusion on January 22 of the agreement reducing the working of the *scala mobile* decisively changed the political map. Many had thought an agreement impossible and that the breakdown of the talks would lead to dangerous social strife. With the help of concessions from the Government on taxes and charges an agreement was reached.

Almost everyone, including the Socialists, could claim some of the credit and for the Christian Democrats elections in the spring looked less easy to justify.

Sig Fanfani projects a very different image from Sig Spadolini. He rarely appears in public and operates more discreetly, concentrating on the executive functions of government. He makes concessions in private—there are the local elections to think about—but still appears tough.

For the moment the Socialist Party is in an awkward position. It cannot convincingly disdain "rigour" and further alienate the middle class voters it attracted by its currently rather fading image of freshness and straightforwardness. It does not seem to want elections. But it is afraid that economic hardship may alienate its larger and *traditional base with* the working class. Its best hope is an economic revival.

Anatomy of a nation

AREA	301,300 sq km
POPULATION	57.2m
GDP	
Total (1981)	L398,125bn
Per capita (1981)	L6,960m
GNP	
Total (1981)	L395,682bn
1981 change in real terms	−0.2 per cent
1982 forecast change	+0.75 per cent
INFLATION	
1982	16.4 per cent
1983 forecast	13 per cent
LABOUR FORCE	
Total (1981)	20.7m
In industry	6.5m
UNEMPLOYMENT	
1982 average	9.2 per cent

TRADE	
Exports (1981)	L86,071bn
Imports (1981)	L103,676bn
Current account (1981)	$ 8,672m
Current account (1982 forecast)	$ 5,500m
Current account (1983 forecast)	$ 4,000m

SENIOR MINISTERS

Prime Minister: Amintore Fanfani (DC)
Foreign Minister: Emilio Colombo (DC)
Interior Minister: Virginio Rognoni (DC)
Treasury Minister: Giovanni Goria (DC)
Finance Minister: Francesco Forte (PSI)
Budget Minister: Guido Bodrato (DC)
Defence Minister, Lello Lagorio (PSI)
Industry Minister: Filippo Pandolfi (DC)
State Shareholdings Minister: Gianni de Michelis (PSI)
Labour Minister: Vincenzo Scotti (DC)
Foreign Trade Minister: Nicola Capria (PSI)

DC: Christian Democrat PSI: Socialist Party

ITALY IV

Economy

Positive signs for the energy planners

FALLING oil prices and a new step forward in Italy's nuclear building programme, combined with a continuing downturn in electricity consumption, are all positive signs for the country's energy planners. But these benefits could be short-lived if the present euphoria shakes the long term objecuve of making Italy less dependent on oil as its major energy source.

At present 66 per cent of its primary energy needs are supplied by oil. The aim is to reduce this to 50 per cent in 1990.

The signs are that there will not be a return to the dark days two winters ago when ENEL, the state controlled electricity utility, started a crash energy saving campaign and a trial nationwide electricity rationing programme.

Critics say that ENEL was alarmist and that rising electricity prices, together with a fall in industrial production, would have led on their own to a drop in electrical consumption. It looks as though they are being proved right, with consumption down 1 per cent in February over the same period the previous year and down 3 per cent in January. Most of the fall was in the northern industrial cities.

However a turnaround in the trend is expected when industrial production picks up. Furthermore ENEL's pricing structures are too fragile to promote large savings in electricity consumption. These are subject to government approval and planned price increases were suddenly revised downwards a few weeks ago when the Government had to give in to heavy pressure from the unions.

Increasing electricity production is therefore the only logical long-term solution to Italy's needs. How this should be achieved has been under debate for the best part of a decade.

The details of the numerous energy plans have changed considerably over the years but the principles have remained much the same. The first has been to increase nuclear power, the second to increase natural gas imports, the third to encourage research into alternative and renewable energy sources such as solar and geothermal energy and the fourth to convert oil to coal powered stations wherever possible.

The nuclear power station building programme ran into difficulties from the start. The debate over the choice of nuclear reactor—boiling water or pressurised water—was complicated by fierce battles between the state controlled and privately owned sectors of the electrical engineering industry for the largest slice of the nuclear cake.

These problems have now been ironed out in favour of the state sector and the Westinghouse pressurised water reactor.

Opposition from local ecological and conservationist bodies, which has held up the siting of nuclear power stations for years, is also on the wane. This is partly because the promise of industrial jobs at a time of high unemployment looks very attractive and partly because Parliament has just passed a new law which allows the Central Government to impose its siting requirements on local authorities when necessary.

The way is now clear for the siting of three 2,000 Mw nuclear power stations—a far cry from the 20 1,000 Mw stations planned in the mid-1970s—which it is optimistically hoped will be operative by 1990. Two potential sites have been put forward in Piedmont, two in Lombardy and two in Puglia. The three choices must be made by the end of 1984.

Increasing natural gas imports has also proved more difficult than anticipated in the mid-1970s. The engineering problems presented by the Trans-Mediterranean Pipeline from Algeria across the Sicilian Channel and the Messina Straits into mainland Italy have been matched by the difficulties met during negotiations with the Algerians on a price for the gas.

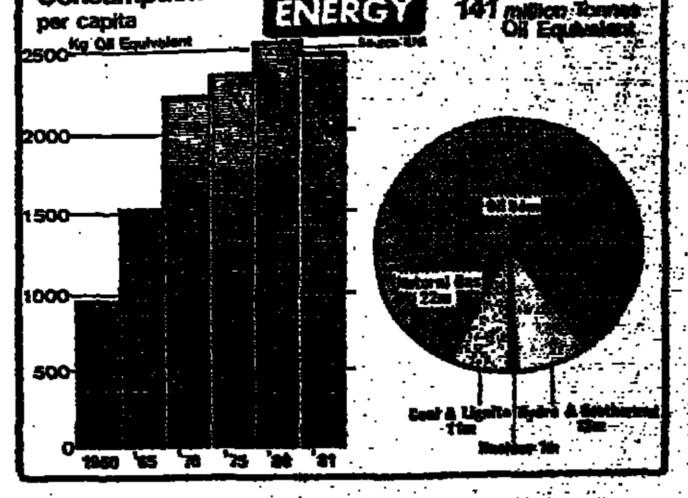
Regardless of strong opposition from ENI, the state-controlled hydrocarbons conglomerate and from various political parties, the Italian Government has decided to pay well over the market price — $4.41 per million British thermal units — but has got Algerian agreement to let it take a little less gas than originally planned in the first three years. The two sides have agreed to review the contract after three years and Algeria should soon unblock a number of industrial contracts with Italian companies, all of which have been held up since the price negotiations began.

The final terms of the Algerian agreement will certainly have an influence on the course of negotiations with the Soviet Union for other natural gas supplies. Italy has an unratified technical agreement with the USSR for supplies via the Siberian Pipeline.

With oil, nuclear and gas prospects all looking brighter than a few years ago, coal is looking increasingly expensive by comparison. Projects for coal-fired power stations may now be revised where possible.

But it will be difficult to drop plans for two large coal-fired stations at Brindisi and Gioia Tauro, two job-hungry areas in the south which have seen promises of chemical and steel jobs vanish numerous times in the past 10 years.

Mary Venturini



The second oil shock has limited Italy's energy consumption but the country is still far more dependent on imported oil than other major European countries

FOREIGN TRADE IN ENERGY SOURCES (L bn)

	1979	1980	1981
Imports	15,396	23,697	34,755
Exports	4,107	3,972	5,641
Balance	−11,289	−19,725	−29,114
of which: oil	−9,880	−17,573	25,354
Energy imports as % of total imports	22.8	27.8	32.5
Energy exports as a % of total exports	6.9	6.0	6.6

Source: ENI

The energy import bill was disastrously hit in 1981 by the 40 per cent rise in the dollar, in which oil is priced

Ian Hargreaves outlines the controversial state pensions system

How a woman of 29 became a pensioner

QUITE WITHOUT warning, one day in January, Ermanna Coffio, a 29-year-old school janitor in Friuli, Northern Italy, became famous.

That was the day an Italian newspaper discovered that Signora Coffio had recently joined the ranks of Italy's 13m pensioners.

Soon newspapers all over the land were printing photographs of pretty Italian girls, all of them smiling, as they told of their good fortune in qualifying, as state employees, for their retirement pension.

In Italy, state employees can retire after 14 years, six months and one day, but since women can also count their years at university as employment, many are able to qualify on pensions not much lower than their salaries in work in their late 20s or early 30s, even though it is far from clear how many in practice have taken up the option.

"If I wanted to I could become a pensioner with a difference of only £50 a month in my salary," says Lucia Vitali, a young professor in the Institute of Actuarial Science at Rome University.

From the point of view of the authorities, the scandal of the youthful pensioners has, however, proved quite useful at a time when a campaign is being waged to educate Italians about the formidable costs of the welfare state which seems to have been created in large measure by political accident in the boom years of the 1960s.

Today, readers of Italian newspapers are constantly being lectured about the fact that social security gobbles up almost a quarter of the country's GNP and that the deficits now being forecast by the luckless Istituto Nazionale della Previdenza Sociale (INPS), which administers the various pension schemes, are big enough in their own right if not actually to sink the Italian ship of state at least to put its engine room in difficulties.

With a public sector deficit of over L70,000bn ($49.3bn) and climbing, social security expenditure has entered the centre of the debate about the management of the Italian economy. INPS ended last year with an accumlated deficit of L21,376bn ($15bn) and is forecasting that this will rise to L33,704bn this year, unless preventive action is taken.

In many respects, of course, Italy's pension problems are the same as those in Britain, France or Germany, where a rising proportion of old people and of unemployed people in the population is increasing the demands placed upon the social security contributions of those in work or, less directly, upon the state which is obliged to make up the difference either by borrowing or through taxes.

THE ITALIAN PENSIONS BURDEN

	1981 number (m)	1981 cost (L bn)	1982 number (m)	1982 cost (L bn)	1983 number (m)	1983 cost (L bn)
Old age	5	18,336	5.1	22,464	5.2	27,808
Invalidity	5.25	15,623	5.23	18,260	5.2	21,892
Dependent survivors	2.5	5,604	2.6	7,014	2.7	8,082
Total	12.8	39,564	13	47,739	13	58,384

Source: INPS (1981-82 figures provisional, 1983 figures forecasts).

The fast rising cost of pensions is a serious threat to government finances

But the Italian system also has its own special features which, described in bald terms, have sent the newspaper leader writers into a sort of rhetorical apoplexy.

The facts are that Italy has just under 13m pensioners, of whom about 5.2m are receiving an old age pension, 2.6m a surviving relative's pension and 5.2m an invalidity pension. Long-term projections suggest this number could top 20m by the year 2000.

There are also a variety of other social security schemes which range from family allowance, whose insurance fund is in surplus and therefore not much talked about, to the relatively small unemployment insurance fund (estimated deficit of L3,906 at the end of last year) and the so-called cassa integrazione, which began life in the 1960s as funds provided by the state and employers to compensate those suffering from short time working. They have developed, unchecked, into the major vehicle by which employers get rid of in effect unsackable workers and at the end of last year were financing 620m of "authorised" but unworked hours—the equivalent of at least 300,000 full-time jobs.

But it is the disability pensions which really get the leader writers going because, whatever their function, they clearly have little to do with what most people would understand as disability.

Prof Vitali, who has published a research study on disability pensions*, discovered that the majority of these pensions were being drawn in the south and that in one town in Sicily, Enna, "disabled" pensioners outnumbered old age pensioners by a ratio of 669 to 100. "Disability pensions became a sort of indemnity in favour of those who live in jobless areas," she says.

The problem of easy eligibility was compounded in the 1970s as the principle of benefits indexation was adopted in Italy, as a companion piece to the scala mobile system of wage indexation.

Nor were matters helped by the fact that the contributions required from the employed, although high for industrial workers, were very modest indeed for the self-employed and especially for the "self-employed farmers" of the south, who were among the prime recipients.

Although the system is intended to be constructed on a pay as you go rather than a funded basis, the parts of the scheme intended for the self-employed were in deficit from day one and they have been joined by the main scheme for wage earners since 1980, when problems of economic recession added to INPS's difficulties.

Of the L21,376bn deficit at the end of 1982, an estimated L18,000bn was attributed to farmers' pensions.

The newspapers have blamed the trade unions, the magistrates for laxity in maintaining reasonable rules and the Christian Democrats, who are accused of buying votes in the south by this clandestine means of financial support.

In the vast, marbled halls of the magnificent INPS headquarters in the Roman suburb of EUR, designed in Mussolini's time as an expression of Italian modernism, grievances are couched in more cautious terms, but the message is the same. "It is all very political. For me, four plus six makes ten, but for others it makes nine and a half or something else," says Sig Dante da Carloni, a member of the INPS's president's secretariat.

There is, however, a mood of reform within the INPS council.

The proposals fall under two headings: that of bureaucratic reform which would merely involve transferring some of INPS's obligations to the fiscal sector where common sense suggests they belong; and more fundamental changes designed to attack the growth in the deficit.

One possibility is to introduce means testing, so that the minimum pension (currently L270,000 a month) is not paid to those above a certain income, to make the contributions pattern more equitable and, of course, to review definitions of invalidity.

All of these proposals, however, face enormous difficulties, although Sig da Carloni argues that if only the bureaucracy is sorted out it will at least force ministers to face more directly the spending consequences of their conservatism in the face of the inheritance of past years of patronage.

Employers have an obvious stake in making progress since Italian non-wage labour costs are among the highest, proportionately to income, in European industry. Even the unions, fresh from their concessions on the scala mobile for those in work, may be prepared to see some tightening up in social security, where indexation remains at the old, generous levels.

As ever, though, there is a tendency in the middle of the scandalous atmosphere created by the likes of Signora Coffio to over-react.

Not many of the newspaper stories have pointed out that of the invalidity pensioners, about 70 per cent are over normal retirement age (55 for women and 60 for men) and are drawing disability pensions purely because this type of pension requires a less consistent record of employment and social security contributions than do old age pensions. It is also true that the number of disability pensions has been falling since 1978 and that although Italy's overall social security budget is rising it is not rising all that much more quickly than inflation. In 1975, social security consumed 20.6 per cent of GNP, compared with 22.9 per cent in 1981.

Apart from baroque and characteristic ornamentation at the margins, the Italian welfare state problem is not in essence different from that in other countries. Indeed indexation of benefits at a time of falling real resources is a problem almost everywhere, as is the demographic outlook.

Italians, however, may be less used to the public issue of the pensions gap. But in so far as their problem is special, it is so chiefly because of its context in an economy with a relatively very large public sector deficit, even if the growth in that deficit owes more to industrial adventures than to social ones.

Without economic growth Italy, like the rest of western Europe, has little option but to tighten public spending on all fronts.

* *The cost of disability in the Italian Social Security System: Lucia Vitali, Rome University, Istituto di scienze attuariali.*


Hugh Routledge

Women are an important part of the factory workforce in northern and central Italy. On the left, diesel engines are assembled for agricultural machinery at the Lombardini plant in Reggio Emilia; on the right, components on printed circuit boards are mounted at a Milan factory belonging to Italtel the state-owned telecommunications manufacturer

Economic prospects are improving reports **James Buxton**

Well placed to benefit from the fall in oil prices

IT LOOKS as if the fall in oil prices is going to give Italy a small but badly needed break after two years of recession. It ought to permit a reasonable improvement in the balance of payments and, if the economies of other major Western countries expand, it should pave the way to a little export-led growth.

But will the drop in the oil price also give the Government an excuse once again to postpone making the basic reforms in public spending, the high level of which is weakening the Italian economy and condemning it to a high inflation rate? The first predictions for next year's public sector deficit are so alarming that it is just possible that something may at last be done.

Italy is well placed to benefit from the fall in oil prices. It meets a higher proportion of its energy needs (two-thirds) from imported oil than any other major industrial country and it has big markets in the other Western European countries, notably West Germany, which the Italians believe are ripe for expansion this year. This should far offset the expected decline in Italy's sales to the Opec countries.

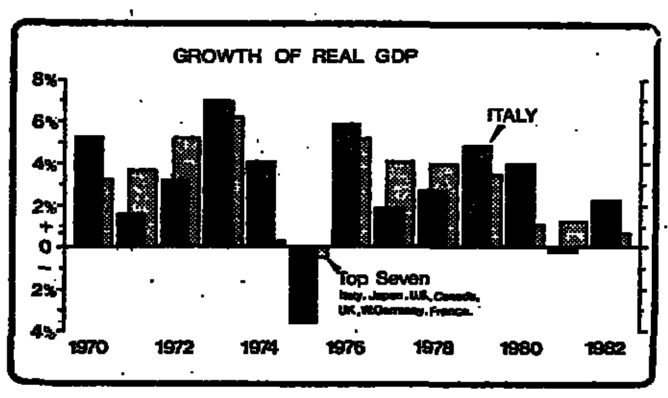
If the expected upturn in the rest of the industrial world occurs Italy ought this year to halve its current account balance of payments deficit from the 1982 level of about L7,500bn according to Dr Carlo Ciampi, the Governor of the Bank of Italy. The economy is in no state to be allowed any relaxation of the tight restrictions on internal demand.

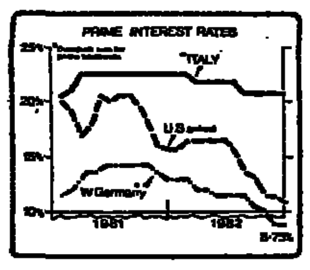
This is because Italy has made only the slightest of adjustments to cope with the second oil price shock, the dollar shock and the world recession. It still has a very high inflation rate (16.4 per cent in February), its public sector deficit amounted last year to 15.6 per cent of GDP (a world record for an industrial country) and painful and costly restructuring in heavy industry is only just getting underway. Instead of drastically reducing imports, Italy piled up foreign debts which amounted last autumn.

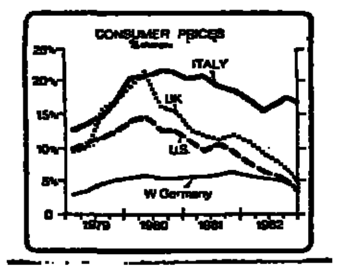
Recent governments have done little to restrain public spending

Italy put off the arrival of recession for as long as possible, until the end of 1980, enjoying nearly 10 per cent growth in the two years 1979-1980, and staging a remarkable investment drive. In late 1980 officials still believed that Italy might almost avoid the recession altogether if the world economy turned round quickly enough.

However, that did not happen and the Italian economy has had two years of almost no growth. Internal demand has been kept in check by a very tight credit squeeze, high interest rates and measures to restrict imports (from May 1981 to February 1982) which also brought down the balance of payments deficit for a time. Italy devalued the Lira within the European Monetary System twice in 1981 and again in June 1982, partly to reflect the widening inflation rate differential with its European trading partners. Under the latest realignment agreed this month by EMS members, Italy has devalued the lira by a further 2.5 per cent.







FOREIGN DEBT ($bn)

	1980	1981
Private loans ...	12.383	17.943
Public loans ...	11.192	15,289
Official monetary institutions ...	1.138	1.000
Total	24.712	34.233

GOVERNMENT FINANCE

	Public sector borrowing requirement (L bn)	% of GDP
1978	34,248	15.3
1980	37,138	10.9
1982	71,000	15.5

Italy usually has faster growth rates than the other major industrial countries—except Japan. But inflation is consistently high and the enormous public sector borrowing requirement has lately caused very high interest rates. Instead of the Government making painful cuts in consumption, the balance of payments deficit has been financed by heavy foreign borrowing

Almost nothing was done to restrain government spending and the public sector borrowing requirement exploded, overshooting every target and rising from 11 to 15 per cent of GDP in two years. Almost all government spending goes in some way to fund consumption, so that the authorities have had permanently to try to damp down the effects of this motor for expansion, while trying to fund the deficit, thus draining the private sector of credit and forcing up interest rates.

The recession has affected Italy much less than other European countries. Workers are rarely made redundant: instead they are put on to state-assisted layoff, drawing almost full wages at immense cost to the state. Unemployment has passed the 2m mark—9 per cent of the workforce—but this is a most unreliable indicator.

The highly flexible nature of employment has enabled the recession to be absorbed with fewer social problems than in, say, Britain. Wage rises still outpace the cost of living. Car sales rose in 1981 against 1980, and fell only 3 per cent in 1982, and last Christmas, as commentators spoke of economic catastrophe, Italians gave each other more conspicuously lavish presents than ever.

However, the other side of the coin has been low investment, because of inflation and high interest rates, and a very slow start to the restructuring of heavy industry in the state sector. Only now is the Government seriously considering cutting capacity in the heavily loss making state steel sector, while a serious rationalisation of the chemical industry only really began last year. The adjustment of Italy's vast oil refining industry to market realities has not even begun. Restructuring requires new investment which is more costly and even less easily afforded than it would have been if the problems had been tackled earlier.

From spring 1981 to the middle of 1982, the only serious action to deal with the economy was taken by the Bank of Italy—using its traditional blunt weapons of credit control and foreign exchange policy.

For months the Spadolini Government failed to heed the bank's warnings that the 1982 public sector deficit was going out of control: the target of L50,000bn gave way to a revised estimate of L70,000bn. That, it was reckoned, could be brought back to a slightly more respectable L60,000bn by the set of economic measures which the Government introduced after weeks of argument at the end of July. How effective those measures actually were can be gauged by the fact that the deficit ended the year at L71,000bn, and predictions of over L100,000bn were made for this year.

The Government got a bad shock last November when it found that it could not sell all the paper it needed in order to finance its deficit, and the Bank of Italy would not buy up all the unsold Treasury Bills, being no longer obliged to do so under the "divorce" between the two institutions which was formalised in 1981.

The recession has hit Italy less than other European countries

As a result the Treasury exceeded its borrowing limit with the Central Bank (set at 14 per cent of its montly spending). It had to go to Parliament in January to have a bill passed enabling it to exceed the borrowing limit by L8,000bn for one year.

On all previous occasions since the war when the Treasury had looked like running out of cash the Central Bank had let the Government off the hook by buying its paper: the action of Dr Ciampi, the Governor, this time set an important precedent as well as provoking threatening calls for the annulment of the "divorce" from some government ministers.

The colossal deficit is partly the result of expensive social legislation passed in the 1970s to impose an elaborate and bountiful welfare state on top of a highly inefficient bureaucracy. Now pensions, the health service and social security, all rising in cost as a result of inflation, an ageing population and the effects of recession have become intractable items of expenditure, declared almost untouchable by the politicians. The 30 per cent of government spending that is transferred automatically to local authorities is protected by another taboo.

Faced with these political facts both the Spadolini and Fanfani governments have only nibbled a little at spending, concentrating mainly on raising revenue from taxation and charges for state-provided services. So the proportion of GDP accounted for by government revenue has gone up by 4 per cent in a year, pressing hard on the Italian tax-payer and consumer, distorting the economy and holding up the fall in inflation.

The present government, with Sig Giovanni Goria at the Treasury, has acted firmly to try to keep this year's deficit down to the same level as last year's outturn, L71,000bn, introducing two sets of highly unpopular decrees at the beginning of the year and acting with unaccustomed speed earlier this month in response to signs that even if all the decrees are approved in full by Parliament, which is unlikely, the deficit will still overshoot.

The Government also achieved the agreement reducing the effects of the scala mobile wage indexation system which, though it will not have a great effect on inflation, will help hold down labour costs and has set an important psychological precedent in breaking the tradition of unquestioned indexation.

The deflationary effects of the measures, assisted by the oil price fall, should allow the decline in the inflation rate to resume in the second half of this year. The rate should reach the Government's target for an average for the year of 13 per cent, with 10 per cent the target for the following year. Only when inflation comes down can there be a big fall in interest rates: prime lending rate is currently 20 per cent.

However, that does not mean that Italy will be out of the wood. Despite the capacity of the economy to make astonishingly fast turnarounds, there are alarming signs that next year's public sector deficit will be even larger than this year's—with the all too predictable results of inflationary pressure, very expensive money and the direction of resources into consumption instead of investment.

Several of the measures so painfully imposed this year will not apply next year, while tax concessions granted this year to protect workers aainst fiscal drag will only take full effect on revenue next year. Tax revenue will anyway fall as inflation declines. Opportunities for raising more revenue without doing more harm than good are dwindling.

It is a sign of the times that the Government is already issuing warnings about next year: but will it bite the bullet and make serious cuts in spendin in the areas that have hitherto been sacrosanct?

A look in detail at two Italian cities and their surroundings: Reggio Emilia in the north, a rich centre of small and medium-sized industry, and Matera in the south, in a largely agricultural area

How Reggio Emilia shows the way

REGGIO EMILIA, on the southern side of the Po Valley in *Emilia Romagna*, is a paradox, which many other Italian cities would like to copy.

The Communists have more than 50 per cent of the popular vote but workers are nowhere to be seen on the flag-stoned streets. The city has one of the highest standards of living in the country and its prosperity appears to be all but immune from the recession.

Of the area's traditional products only the building and *ceramics industries have been* seriously hit. Youth unemployment is worrying, but less so than elsewhere because of the large number of part-time and temporary jobs available.

In the past Reggio has been a byword for dynamic small engineering industry, especially farm machinery. Local companies like Lombardini, Ruggerini and Maxmara are internationally famous. However, the average Reggio business *still employs less than 50* people.

Local businessmen exude an extraordinary confidence. Nowhere is this more evident than at one of the main local banks, the Banca Agricola Commerciale, which has attracted national attention as part of the seven-bank pool that took over the collapsed Banco Ambrosiano.

The company's pride and joy are its cheese deposits where wholesalers leave the golden grana cheese—the Reggian equivalent of parmesan—they have bought from local farmers. The bank's staff of technicians guard and attend to the grana while it matures and clients obtain credit according to how many cheeses are in their *account*.

Touring the bank's largest warehouse at Quattro Castella just outside Reggio, one is immediately reminded of how agriculture and the local engineering industry are complementary: even the ingenious machines which pick up the cheeses, clean them, and dust the shelf underneath, are made by local companies.

There is a high degree of compatability, too, between the grana, or *Parmigiano Reggiano* as it is formally known, and the robust, sparkling Lambrusco red wine which is a speciality of the region.

Despite the disparaging comments by some French vintners that "*ce n'est pas un vin, c'est un boisson*," local co-operatives are exporting increasing quantities of Lambrusco, which has spearheaded Italy's conquest of the U.S. wine market. (It is best sampled with some of the outstanding examples of local cuisine such as cotechino in galera, a dish based on pigs' trotters, or tortelli di zucca, a kind of ravioli made with pumpkin.)

Part of local agriculture's response to increasing competition has been the formation of co-operatives. The Puianello Wine Co-operative, at the end of a country lane called the Via C. Marx, is fairly typical of this form of organisation.

Receptive

Its 500 *members* have the use of a modern press—with all the machinery once again made by local companies—and even of a "wine pump." This latter *works* on exactly the same principles as a petrol pump and enables tanker lorries to be filled rapidly.

Despite their receptiveness to innovation, the co-operative workers are vehemently opposed to the idea of selling wine in tins as is now allowed *under Italian law*—one local firm has experimented with the idea but most Reggiani feel it lowers Lambrusco's prestige.

To the chagrin of many local *industrialists*, the co-operatives have often become astonishingly wealthy. The Giglio dairy product co-operative has its own art foundation with the only Goya painting outside a private collection in Italy.

The 10,000 families involved in Giglio are divided more or less equally in their loyalties between the Communists, Socialists and Christian Democrats but the Socialists are generally believed to have the upper hand.

With 400 employees and a projected turnover this year of L230bn, Giglio is in many ways representative of the independent-minded form of Marxism which dominates Reggio. On the admission of Giglio's chairman, Sig Alberto *Galavernis, members bring* their products to him not so much for ideological reasons but more because they know Giglio dominates 70 per cent of the local market and has a high degree of brand loyalty from the *consumer*.

There are several historical reasons for the success of the Communist Party in Reggio: a tradition of militant agricultural workers has resulted from resistance to Fascist gangs in the 1920s; the war-time resistance of 1943 to 1945 left the PCI (the Communist Party) the only well-organised party in the area; and the retaliatory purges in the late 1940s and 50s of Communist trade unionists forced many to set up on their own, and in the process helped create today's framework of small industries.

On the whole the *industrialists seem to prefer the PCI*, to the co-operatives. There is a feeling that the party has deliberately held off from industrial agitation since the recession started because local officials feel the showpiece of Emilia Romagna's prosperity under Communist rule has to be maintained at all costs.

The city and the surrounding *countryside* seem remarkably well integrated. Sig Luigi Slanzi, the President of the *Reggio industrialists' association*, says it is the area's peasant roots which have given local entrepreneurs "grinta"—the much prized Italian quality of gumption and guts rolled into one.

Lombardini, one of the leading engineering companies, sells 78 per cent of its output of small diesel engines for use in agricultural machinery and *small tractors*. Following the Emilian model of economic development, the company still relies largely on self-financing—using family income and issuing *few dividends. The company is* alert to technological change elsewhere and engineers in its research and development department can be found taking apart *engines* made by Japanese competitors.

Efficient

Although it is no longer the small enterprise it was when it was founded in the 1920s, it relies on many small firms which supply it with basic parts by exclusive contracts. Together with Reggiane, a local engineering company, it has provided a training ground for many of the areas small entrepreneurs.

Lombardini last year exported 38 per cent of its output —*mainly* to France, West Germany and the U.S. In India its engines are produced under licence and attached to Enfield motor-cycle frames.

In the past two years exports have fallen, short-time working has been introduced and the labour force slimmed but Sig Mauro Bodo, the managing director, appears relatively unruffled by the recession.

As is so often the case in northern Italy the overall impression is of a high degree of efficiency with far fewer tedious wrangles with slow-moving bureaucrats than in Rome or the south. At the same time Reggio seems to have avoided the pitfalls of the giant industries in the industrial triangle of Genoa-Milan-Turin.

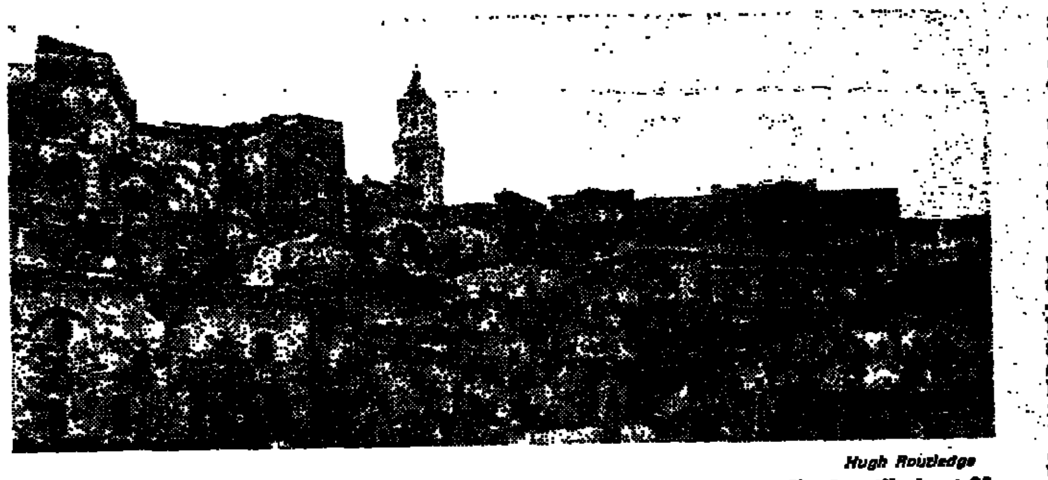
There are fewer social problems than in the big northern cities. Immigrant Egyptian and other North African labour is used for seasonal work in farming but is highly disciplined, duly returning home at the end of each harvest.

Local industrialists generally seem content. Apart from the perennial request for lower inflation and interest rates, they ask nothing more from the central government than more help with marketing Italian products abroad, declaring that the present Institute for Overseas Commerce is inadequate.

Is there spiritual poverty in this island of well-being? The city government is energetically pursuing an ambitious programme of cultural events with such delights as free concerts in Reggio's centre. It paid tribute to the large number of pig farms in the area with an exhibition on the theme of the pig in Italian art.

The flat, slightly melancholy countryside surrounding the city recalls Bertolucci's Novecento — a film which showed the historical wealth of rural culture in Emilia Romagna which is also part of life in Reggio Emilia.

John Phillips



Hugh Routledge

The abandoned cave houses of Matera, in which much of the population lived until about 30 years ago. Now some of them are being refurbished as homes, shops and restaurants

Achille Maramotti: he says his business survived the union agitation of the 1970s by breaking up into small units

Tailor who grew on smallness

AT FIRST sight Achille Maramotti does not appear to fit into the usual mould of Reggio Emilia's entrepreneurs. Businessmen from the city are generally small operators, with not more than a few dozen employees and limited capital resources.

Maxmara, Sig Maramotti's textile company is, however, one of the largest producers of ready-to-wear women's clothing in Italy. It had a turnover last year of L173bn (£81m).

And while many owners of local firms still live in relatively humble accommodation—a reminder that often they began their working lives as shop floor employees in local engineering companies—Sig Maramotti inhabits a sprawling 17th century castello perched at the foot of the Apennines. He hunts, keeps uniformed servants and has a vast collection of modern painting and sculpture including, it seems, works by virtually every major 20th century European artist, from de Chirico to Henry Moore.

Despite these seeming contrasts with his peers, however, Sig Maramotti began his career modestly in a job selling the region's Grana cheese. His next venture, for which he drew on what he learned from watching his mother work as a local seamstress, was to set up a small tailor's workshop.

Today Maxmara still fits a model of economic development based on small companies that are heavily export oriented, flexible and technologically innovative.

Sig Maramotti says it was only by breaking up his textile empire into small plants that he survived the *great wave of union agitation* which swept through the region in the 1970s.

Independent

"The philosophy was to wage a kind of guerrilla war on the unions and avoid direct confrontation with their big divisions, to divide up the business into smaller factories and manage them in an independent way so that the workers of one factory were only concerned with that place and not the whole," he explains. This is a pattern practised by many Italian companies.

Although Sig Maramotti, aged 55, has earned a reputation in the Italian press for what is seen as union-bashing he now seems to have reached a modus vivendi with the CGIL, the Communist-dominated trade union federation to which most of his employees belong. For example, the union no longer actively opposes his farming out of about 60 per cent of his production to small local workshops, and has accepted the use of computers in the cutting of cloth, the design of the 2,000 new lines Maxmara puts out every year, and in the company's storage department.

Some 40 per cent of production is exported: to Benelux, France and West Germany, where the company has its own subsidiaries, but also to Britain where Maxmara does business through companies such as Harrods and Simpson's.

Sig Maramotti is known to be a considerable shareholder in both the Credito Romagnolo and the Banca Agricola Commerciale but says he still eschews outside financing of his own companies.

"We need a lot of working capital—to pay for textiles, to pay stylists, to give credit to the clients—but I could only resist the strikes because we did not have the banks on our backs," he says. "*Fortunately we do not have* cash flow problems."

J.P.

Matera—a meeting of the old and the new

THE CITY and province of Matera in the south of Italy present a strange contrast between *ancient poverty* and modern prosperity. The city is built on a ravine riddled with caves. Until 30 years ago it was infested with malaria and had some of the filthiest dwellings in Europe. The province was one of the poorest and saw waves of migration from the *land in the* late 1950s and 1960s, to Germany, Switzerland, Piedmont, Lombardy and Emilia.

By 1979 Matera Province had the highest per capita income of any province in the Mezzogiorno (the south), higher even than that of Rome. Intensive horticulture along the Ionic Coast, and the new chemical, gas and fibre industries in the river valleys brought new jobs.

In Matera City there has been much improvement too. Cave dwellings housing about 1,000 people are being refurbished and shops, small workshop industries and restaurants are *being built*. "*The source of our* shame until 30 years ago has become a business and tourist asset. It is cheaper to repair the caves than build new apartments," says local businessman Mario di Troia.

Two years ago the city showed every sign of a mini-boom but now there is recession. The chemical industries are temporarily shut down and the bottom has dropped out of the strawberry market, the leading crop from the coastal farms.

In 1982 there was a 13.5 per cent increase in unemployment to 15,350 with 4,487 school-leavers jobless. The population of the city is 51,000 and there are about 150,000 people in the province.

Exile

Agriculture has been hit by successive droughts and cereal output last year fell by 20 per *cent. In the industrial chemical* plants run by subsidiaries of the state company ENI, 1,072 employees have been temporarily laid off, pending announcements about the long-term future for the chemical sector in the Basilicata region.

The most famous literary *portrait of the province is Carlo* Levi's "Christ Stopped At Eboli," a description of the author's two years exile in the villages of Aliano and Grassano west and north of Matera. Due to huge road improvements, Aliano is much more accessible than when Levi went there in 1935 as a compulsory exile from Turin where he had been arrested for anti-fascist activities.

The lay-out of the little village, however, is exactly as he describes it, following a high *ridge with a steep ravine*, the Fossa del Bersagliere, lying to the north. There are some new houses, quite often with their animals sleeping in the same room *still*. The population at 1,687 is virtually the same as 50 years ago. The greatest period of migration was in the 50s when Allanesi moved to Turin and Emilia.

Energetic

One of the central figures of Levi's book *is the Podesta, or* fascist superindent, Don Luigi Magalone. In his place today as mayor is Signora Maria Santomassimo, 41, a Communist. When elected 10 years ago, one of her first acts was to ask Levi to return. He accepted and then died a fortnight later. He is buried above the town.

Signora Santomassimo is a small energetic figure. She says she is a Communist but also a Christian, "though I don't go to Mass."

What are the main problems facing Aliano today? Are they still the brutal conditions of life on the land described by *Levi? I asked.* "*The biggest* question is youth unemployment. Compulsory schooling to 14 means young people are overqualified to work the land. *There is no work in the building* trade, the other main source of employment."

Most of the older people in Aliano are still tied to the land, drawing meagre state pensions as Braccianti, workers employed for clearing the soil and woodland. This makes it hard to calculate the unemployment level.

The men *still* go out at dawn in the summer to harvest fruit, olives, grapes and corn from the tiny plots of land scattered along the hills. "Sometimes they have to travel half a day or a day to get to a small piece of land," says the Mayoress. "The land is very difficult. Not many of the younger ones want to inherit this kind of life."

Carlo Levi's first place of exile, Grassano—"white on the top a desolate hill, like a little Jerusalem in the solitude *of a* desert"—presents a more open aspect than Aliano further to the west enclosed by the high mountains skirting the Bradano.

About 30 per cent of the housing in the centre of the village was damaged by the 1980 earthquake which sent shocks along the high ridges of southern Basilicata like serpents. Around 400 houses had to be pulled down and there are still 20 families living in *temporary shelters*.

The L1.8bn spent on repairs from the Ministry of the Interior's emergency programme has given the building trade in Grassano a shot in the arm. Grassano has about 600 unemployed, nearly 10 per cent of the population of 6,188. Building and the land are the only local employers.

Land is still held in small pockets like that at Aliano. About 4,000 hectares are split into 1,000 holdings.

Unlike the peasants of Levi's book, Dottore Nicolo Vignola, the mayor, says most of the villagers of Grassano are believing Christians, either *Catholics or Evangelicals*.

"I suppose I do believe in the future," the mayor says. But a lot is going to depend on whether they can revive the chemical plants in the valley and continue the modernisation of agriculture."

So far there has been little reverse migration from the north of Italy. But that could pose a threat in the future. For the moment the main preoccupation in Grassano is rebuilding the earthquake-damaged *houses* which Sig Vignola says will take at least 10 years.

The surprising thing about both Aliano and Grassano is *how much they resemble the* landscape and society described in Levi's book. The Mayoress of Aliano says that the Podesta's sister, the frenetic and socially ambitious Donna Caterina Magalone Cuscianna, still lives in Aliano.

She herself remembers as a schoolgirl meeting Giulia la Santarcangelese, the witch who was Levi's housekeeper. "Even then she was quite striking, at well over 50. She had beautiful, regular teeth, was much taller than most round here and had wonderful, long black hair."

None the less, the land reforms breaking up the latifondia (estates) in the 40s and 50s and the funds poured in by the Casse del Mezzogiorno have improved the conditions of the peasants considerably. Though the next L250bn programme of the Casse del Mezzogiorno has been delayed by the Government, there is now a series of roads connecting the outlying *comuni*. More land has been irrigated.

There are 8,000 tractors in the province, and 5,000 motor hoes and harvesters. "They all have little tractors now," said the Mayoress of Aliano as we talked in her offices. Dusk was falling and the men were *coming in* from the fields, with small donkeys, mules, the light brown light draft horses. About 20 or 30 passed the window of the Municipio. Not one was driving a tractor.

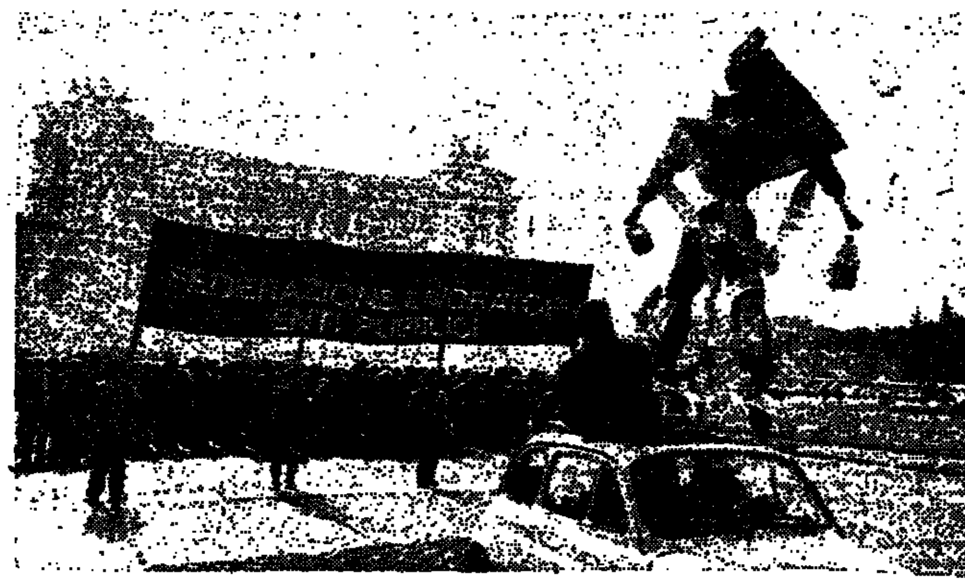
Robert Fox

	Numbers employed (millions)	Unemployment rate (per cent)
1978	20.3	7.2
1979	20.7	7.7
1980	20.9	7.6
1981	20.8	8.4
1982	20.7	9.2

THE LABOUR MARKET

Source: Istat

Unemployment is still rising but even these figures do not tell the full story; many more workers are on almost permanent State-assisted lay-off under the cassa integrazione scheme. Right, public sector workers march through Piazza Venezia in the centre of Rome in support of their wage claims in the current three year contract negotiations.



The scala mobile deal still dominates labour affairs

All set for the next test

ITALIAN LABOUR affairs last year were dominated by the eight-month struggle between employers and unions over the future of the scala mobile system of wage indexation.

The settlement, signed after strong intervention by Sig Vincenzo Scotti, the Labour Minister, will reduce the benefits of indexation by between 15 and 18 per cent a year, depending upon whose interpretation of the small print finally takes hold as Italy's national contracts in each industry as renegotiated in the coming months.

The deal, however, has already been hailed as a victory by the employers. "It is certainly historic in its innovations," says Professor Isidoro Franco Mariani, vice-director-general for union relations at Confindustria, the employers' association. "The unions have practically accepted an incomes policy."

As everyone makes clear, however, the protocol signed by the unions and employers in January still has to be tested in the equally stormy bargaining chambers of individual industries, where, apart from the wage indexation components, several important issues will be worked out.

The list of items in the protocol requiring ratification in these contracts includes:

- Relaxation in the rules about hiring from labour exchanges, which will give employers the chance to select their own candidates in the case of youth workers. For adult workers half will be selected by name, rather than the existing "by number" rota system.
- Money ceiling on annual wage increases in national contracts, agreed at levels fixed under the protocol.
- No company or plant level deals within the 18 months following each national contract. Contracts normally last for three years in Italy.
- New controls on absenteeism, including more freedom for companies to use doctors to make medical checks on workers and an obligation on workers to be at home certain hours of the days of their absence.
- New arbitration mechanisms for settling disputes.
- A reduction of 40 hours in the working year between 1984 and 1985.

Absenteeism

Union leaders know they will have difficulty selling several of these items, in the face of accusations from sections of shop-floor workers about a betrayal over the cherished scala mobile. Especially sensitive, they say, is the issue of absenteeism, since official figures show that under the impact of the recession, absenteeism has in fact fallen considerably since 1979 (from 13.4 per cent of potential working days to 10.56 per cent).

The employers have not succeeded, however, in achieving changes in the system which since 1969 has allowed those absent through sickness full earnings.

From the employers point of view, the only negative item in the protocol is seen as reduced working hours, since the Italian working year is already the shortest in the EEC, with the exception only of Belgium.

On the basis of the agreement, Confindustria is now forecasting that the cost of labour will rise by 13.7 per cent this year, by 8.8 per cent in 1984 and 8.7 per cent in 1985. These figures are some way above the targets set by the Spadolini Government at the start of the renegotiation process, but represent a significant easing of the pressures which all but doubled labour costs in the 1978-1982 period.

With the scala mobile debate out of the limelight again, Italy will also this year have the chance to re-focus upon some of the more chronic problems of the labour market, such as youth unemployment, which several observers argue is moving towards boiling point.

Of the 2.1m people officially registered as unemployed at the end of last year, 1.6m were aged between 14 and 29, a quite large proportion of them university graduates. "In Italy, study is not only stupid, it is dangerous," says Franco Ferrarotti, Professor of Sociology at Rome University. Prof Ferrarotti, who has done a good deal of research on terrorism, warns "unemployment really has played a major role."

"I don't see any way out of this so long as we have a frozen labour market. The victims are bound to be the new entrants, the young," he says.

Professor Sergio Bruno, who holds the chair in public finance at the same university and who has written extensively about youth unemployment, speaks of the "perverse alliance" between politicians and unions which has prevented either significant progress in reducing the immobility within the labour market or the evolution of any other strategy for dealing with the problem.

Immobility

He says the really big problem is in the south, where the unemployment rate is double the level in the centre and north. Overall, Italy's official unemployment rate is between 9 and 10 per cent, but adjusted to include those taken off the register by Government short-time working schemes (the cassa integrazione), the rate is closer to 11.

For young people, the figures may well also be higher than the statistics indicate, since very low unemployment benefits for people with no work record discourage people from declaring themselves as unemployed.

There is, in the figures, however, ample evidence of the immobility of which critics complain. Labour turnover in Italy fell from 323 per 1,000 workers in 1965 to 126 per 1,000 in 1980, for entrants, and equally sharply from 342 to 155 for leavers.

The protocol attached to the scala mobile agreement will clearly only go a small way to addressing these problems, which date back to the tight job security laws enacted following the "hot autumn" of 1969. Perhaps equally troublesome as the job security laws is the statute which says that no Italian company over a certain size should be allowed to go bankrupt.

Rigid

Of course, the other side of the coin in Italy is always the submerged economy, variously estimated to be equal in size to between 10 and 30 per cent of the official economy and to employ between 2m and 6m workers, on top of the country's nearly 21m official workers. There seems no doubt that the country's relatively small female labour force is small at least in part because much female work takes place outside the official economy, in areas such as knitwear and services.

It is difficult to know to what extent these rigidities are to be blamed or exonerated in the light of the fact that Italy has, by EEC standards, enjoyed relatively strong employment growth in the 1970s. Even in industry, Italy maintained its employment levels in that decade, in the face of 10 per cent drop in the Community as a whole.

Since 1980, industrial decline has caught up with Italy and total employment has tapered slightly downwards in the last year.

Given, however, the still quite large exodus from agriculture, the Italian economy is managing to generate service jobs, by no means all of them in the bloated public administration, at a rate which compares well with other European countries.

Another aspect of the labour market, which has been little researched and which is therefore not easy to explain, has been the influx into Italy in the past five to 10 years of about 1m foreign workers from North Africa and the Far East. These workers seem to have been absorbed into the dirty jobs in the big cities of northern and central Italy, fulfilling a role traditionally taken by migrant labour from the south.

What is clear, however, is that the 1980s will be harder that the 1970s for Italy on the employment front.

Labour costs have risen very sharply and according to some surveys, such as one carried out late last year by Dresdner Bank, Italy has the highest unit labour costs in the world. Certainly its non-wage labour costs, a function of its byzantine social security system, represent a high charge on industry, accounting for over half of total labour costs, compared with 41 per cent in Germany and 23 per cent in the UK, according to figures produced by the Swedish Employers' Confederation.

Confindustria, however, forecasts that growth in the services sector will continue to offset decline in the industrial and agricultural sectors, leading to a net growth of about 200,000 jobs in the next two to three years.

Professor Ferrarotti takes a gloomier view, arguing that the failure to address fundamentals will mean more black economy growth, with the result that "Italy is slipping out of contact with the rest of Europe." All the data about the country's economy is, he says, "biased and unreliable."

Others argue that the balance of payments deficit and the public spending burden presage a crash in output and employment. But for the moment, there is no doubt that from the employment standpoint Italy is in a very Italian way coping with the economic crisis as well as most countries in western Europe.

Ian Hargreaves

Debate over interest rates becomes main banking issue

Ambrosiano scandal eclipsed

ITALY'S COMMERCIAL banks are engaged in a rearguard action against the Treasury Minister to preserve the highest interest rates in the European Monetary System.

So far honours are even, despite inside help for Treasury Minister Sig Giovanni Goria from the influential Banca Nazionale del Lavoro—chief shareholder, the Treasury.

Backing the commercial bankers in their reluctance to lower rates are the central bankers of the Banca d'Italia.

Sig Goria is prodding the banks to make room for a five point cut in Treasury bill yields to around 13 per cent by next December.

Beyond an understandable desire to save money on funding the state's likely borrowing requirement, which could reach L80,000bn, Sig Goria, a Christian Democrat, is himself under pressure in a possible election year.

Both industry leaders and the Christian Democrats' Socialist government partners have been vociferous in demanding lower bank lending rates to aid an economic recovery.

However, Dr Carlo Ciampi, Central Bank Governor, more concerned with Italy's 16 per cent inflation rate and the underlying vulnerability of the Lira, has made clear in public and private that he sees little room for easier monetary policies.

Tug of war

The tug of war has already produced one notable innovation and should shortly produce another.

In February, the Banca Nazionale del Lavoro, exercising a previously theoretical autonomy, broke with the traditionally cartelised practice of the Italian Banking Association (ABI) and unilaterally cut its prime rate by a half-point to 19½ per cent.

A week later the rest of the association's 1,000-odd members declined an invitation from BNL to follow suit, justifying their reluctance by reference to the turmoil in international currency markets following the West German elections.

At the same time Professor Silvio Golzio, ABI chairman, indicated that the banks' objections were mainly rooted in fear of a new erosion in their deposit base, repeating the experiences of 1981 and first half of 1982.

In those 18 months a near-20 per cent inflation rate and highly competitive Treasury bill yields triggered an unprecedented real decline in current account savings.

The problem facing the Treasury's efforts to cut rates all round, says Professor Golzio, is not a lack of co-operation from the banks. "It is that at a certain point savers may stop saving."

The banks, who sit on some of the widest spreads between borrowing and lending rates in the industrial world, and whose overmanning and bureaucracy are horrendous, have few admirers even among their depositors.

But for the Bank of Italy, which has held the discount rate at a near record 18 per cent for the past seven months, their unwillingness to bow to the Treasury has cleared the way for a long desired reform.

Last December the Central Bank declared its intention of removing a cumbersome and not notably effective corset on credit growth by the middle of this year.

In private conversations Central Bank officials hinted that the anti-inflationary corset, much resented by aggressive foreign banks for the ceiling it puts on their potential expansion, would be stripped away only if the Central Bank was sure the reform would stick.

"They don't want to take it off and then slap it back on again six months later," one American banker commented. "Right now I'd say its 50-50 that they'll do it. A few months ago I'd have put it at 60-40 against."

Two factors favour the reform. One is the expected fall in inflation later this year under the combined impact of recession and low oil prices. The other, more directly, is the weakness of loan demand in recent months, due partly to the recession and partly to borrowing rates of up to 24 or 25 per cent for less than prime debtors.

Global figures are not available but most banks report credit growth so far this year has been well below the 14 per cent annual rate permitted by the "massimale."

With loan demand rising at less than the permitted rate, the Central Bank should be able to phase out its restrictions without noticeable consequences for the credit system, bankers say.

Meanwhile, with all eyes focused on the interest rate debate, Italy's main conversation topic for the past nine months has slipped, perhaps briefly, into the background.

The banking system appears finally to have absorbed the shock of the collapse of Banco Ambrosiano. Whether it has absorbed any lessons from it remains to be seen.

Dr Carlo Azeglio Ciampi, Governor of the Bank of Italy: little room for easier monetary policies.

Central Bank officials say the June collapse and August liquidation of Italy's most internationally prominent private sector bank has had no lasting ill effects on the country's banking reputation.

Not all foreign bankers agree. Banks like Williams and Glyn's now drawn into a tangle of litigation with the para-statal successor, Nuovo Banco Ambrosiano, may wryly reflect on the wisdom of Polonius—neither a borrower nor a lender be. Williams and Glyn's, though only in a small way, was both.

It, and AP Bank of London, now find themselves being sued by Ambrosiano for deposits which they received from the Milan parent bank and on-lent to its overseas subsidiaries.

Among other legal spectacles on show for the international banking fraternity, is the graceful sight of Ambrosiano's Luxembourg holding company suing Ambrosiano, six former officials and Nuovo Ambrosiano for more than $400m while some 88 creditor banks of the Luxembourg holding are to sue Nuovo Ambrosiano for almost as much again.

Meanwhile Ambrosiano's liquidators and the Italian Government are still trying to squeeze from the Vatican's Istituto per le Opere di Religione (IOR) the $1.2bn which disappeared from Ambrosiano's Latin American subsidiaries into Panamanian holding companies allegedly under IOR's protection.

Whether a joint Italian-Vatican commission studying the relationship of IOR and Ambrosiano will resolve the financial tangle is uncertain, and so far there has been no sign that the Vatican is ready to accept responsibility for the Panamanian loans.

Confidence

The Italian authorities, and the managers of Nuovo Ambrosiano seem strangely unaware of the disaffection caused by their decision to repudiate the international debts of Ambrosiano's overseas subsidiaries.

Nuovo Ambrosiano, "the bank made of banks," as, making a virtue of necessity, it describes itself in its advertising, has worked hard to rebuild confidence among its domestic depositors and clients.

But its relations with the international banking system remain uncertain.

Bankers complain in particular that Nuovo Ambrosiano's shareholders, the seven Italian state and private-sector banks which bailed out Ambrosiano's domestic banking network, appear to be standing too far back from the new bank's operations.

When Nuovo Ambrosiano held a lavish reception last December to re-polish its image, some foreign bankers pointedly declined to attend.

Those who did go found, to their amazement, that none of the shareholder banks were represented at the function.

"I told them they would be well advised not to do the same thing in London or New York," one foreign banker recalls. "Frankly we are unlikely to do business with them unless they have the visible backing of their shareholders."

Charles Kennard

'The doctors are dissatisfied, the people are dissatisfied, the nurses are dissatisfied and the budget is broke'

National health service comes under heavy fire

BY ANY standards, Italy's *decision in 1979* to press ahead with its long debated national health service plan was an act of some boldness, given the state of both the national and the world economy at the time.

Three years later, however, the country scarcely seems cheerful about the results. Leading Christian Democrats, not to mention some Socialists, have started to call for a reversal of the 1979 reform, launching Italy into an anguished debate about *whether it is possible or* desirable to take health care back into the private sector.

Sig Renato Altissimo, the Health Minister, has to a degree fanned this criticism by hinting that he is prepared at least to *consider moving away from a* British style "free at the point of delivery" system, to one in which patients would pay and then be recompensed by the state. He has also, in an effort to curb costs and demand on the system, developed a French-style "ticket moderateur" mechanism to charge for drugs and certain hospital services, such as some diagnostic tests.

Sig Altissimo, however, has thus far firmly rejected demands for more fundamental revisionism, a situation whose irony he seems to enjoy. It was Sig Altissimo's Liberal Party which alone in *1979* voted against the health service legislation. His view now is that too much has been changed for the system to be able to endure another radical switch in direction.

The system described in the national health act is intended to be a cross between the British and Swedish national health services; British in its three-tier organisational structure but Swedish in the political control granted to regional government.

Hardly surprisingly, this attempt to graft North European administrative practices upon the groaning structure of Italian government bureaucracy has caused problems.

The first three-year national health plan, which should have been produced in 1980, is still stuck in Parliament, where lawmakers are haggling over a 1,000 page document.

But without a national plan, the 674 local health units (the USLs) and above them the 20 regions, lack guidance both about health care strategy and *about the resources available to* them.

Matters have been made worse by the typically Italian processes which have ensured that very appointment in the

ITALIAN HEALTH SPENDING
(L bn)

	1975	1977	1979	1981
Public sector†	6,913	10,092	14,893	22,276
Public sector as % of GNP	5.5	5.3	5.5	5.6
Private sector	1,173	1,520	2,162	3,998
Public investment	n.a.	363	609	694

† *Includes estimates for private facilities* taken over by state in 1979.

Source: Istituto per la Ricerca di Economia Sanitaria, Milan.

The health system has been kept on a tight financial rein during the last decade, consuming between 5 and 6 per cent of the country's GNP compared with around 10 per cent in Sweden, Germany and the U.S.

health administration, from *national council to local hospi*tal board, is in the patronage of the political parties.

The result of this is that not only are many USLs run by people with little or no experience of health care, but *they have in several parts of* the country fallen into the web of kickbacks and corruption which plagues so much of Italian public life; 13 USL presidents are already in jail. "It is a disaster," says Dr Sveva Gilardini, the Health Ministry's spokesman.

Equally unsatisfactory is the fact that the medical profession is not even represented upon the national health council—and its position is tenuous at the local level. Combined with grievances over pay, this has recently plunged the country into a series of hospital doctor strikes.

"I cannot think of any advantage or achievements of this system," says Sig Michele Dau, a health expert with the Rome-based CENSIS think-tank. "The doctors are dissatisfied, the people are dissatisfied, the nurses are dissatisfied and the budget is broke."

Beneath this welter of complaint, however, reside a number of mitigating factors, leaving aside the basic ideological question of whether it is better to be providing a free system with guaranteed access for the estimated 3m Italians who before 1979 were without health insurance, which at that time was organised by industrial sectors or professions in a complex network of mutual societies.

The most obvious and general point to be made is that the system is still terribly new. In the south, some of the USLs have not even been constituted and even where the administrative structures have been created, those responsible for them have scarcely had time to address the vast range of problems created by such ambitious changes.

"I am not so pessimistic about the future and I do not *think there is* a real political possibility of going back to a private system," says Dr Vittorio Mapelli of the Milan-based Istituto per la Ricerca di *Economia Sanitaria*.

Dr Mapelli points out that far from suffering runaway expenditure, the Italian health care system has, in fact, been kept on a very tight financial rein in the past decade, consuming between 5 and 6 per cent of the country's (underestimated) GNP, compared with 10 per cent or thereabouts in Sweden, Germany and the U.S. Since 1979, the proportion has actually fallen from 6 per cent to 5.24 per cent. It will cost about L30,000bn this year.

The reasons for this, Dr Mapelli argues, are that in the absence of any planning by the national health council, the state has simply throttled back funding in a crude way, forcing the system to make economies, not always in the right places. Doctors' salaries, for example, have fallen between 1978 and *1981 from* 16 to 13 per cent of total costs and even the drugs bill, in a country notorious for its high rate of consumption, has been held in check, falling from 16.9 to 15.4 per cent of expenditure.

Capital spending has also been held at levels less than half the level envisaged in the draft national health plan.

Faced with these pressures, says Dr Mapelli, it is hardly surprising that the new system is creaking and that the private health sector has grown at almost 40 per cent a year *since 1979, even though* only one in 100 Italians holds private health insurance — one of the lowest ratios in the developed world.

Italy already has one private hospital bed for every six in the *public sector — most of* them are, however, contracted to the state — and Dr Mapelli's research has shown a boom in use by the state of private sector diagnostic facilities.

It is also, rather obviously, the case that many of the complaints made about the health service today are the same complaints made about the system before the *1979* reforms.

The shortage of trained nurses, for example, is not a recent phenomenon. Nor is the chronic surplus of doctors, caused by the unwillingness of the state to control access to *medical schools, which have* been bulging at the seams throughout the 1970s, to the extent that many graduates complete their training without any significant practical experience.

Italy's public hospitals have, in fact, more doctors than trained nurses, and the trained nurses are outnumbered two-to-one by anciliiaries who are able to work on the wards with as little as two weeks training.

The large *number of doctors* has, at the same time, ensured that pay has remained low, encouraging doctors wherever possible to supplement their income in the private sector. The number of registered doctors in Italy all but doubled between 1970 and 1981 and with one-in-12 of all Italian university students in medical faculties (down from a peak of 14.4 per cent in 1971), the surplus will continue to mount.

*The same pattern of bewilder*ing mismatching of resources also applies to hospital buildings. The country's strong local government traditions and the need for prestige projects to satisfy political egos has pro*duced in the past 20 years an* enormous surfeit of hospital beds in certain parts of the country, especially in the wealthier northern regions.

Dr Gilardini says an attempt is now being made to convert *smaller hospitals* into old people's homes and day-care facilities, both of which are in short supply in Italy.

Another neglected area, which the 1979 law sought specifically to redress, was the inadequate attention given to preventive medicine.

One aim of the national *health plan would be to com*pel regional authorities to set aside a certain proportion of their funds for preventive work. Meanwhile, health ministry officials bemoan the fact that cervical smear tests are taken by *only 3 per cent of Italian* women, compared with over 90 per cent in the U.S.

On a similar theme, CENSIS has monitored the recent very rapid growth in health consciousness reflected in the jogging, dietetics and aerobics ("la dolce ginnastica," as one Italian magazine called it) and *chides the Government for* failing to ensure that the official health system responds to these signs of interest in health maintenance.

Another important, if for many Italians still morally complex area, is that of abortion. Italian women in 1981 had one *abortion for every three live* births, reflecting the still gross deficiencies of the country's family planning provision.

But by no means all the standard health indicators in Italy look bad. By international standards, Italians live long—perhaps, research has suggested, because of a healthy diet and a *good climate — and infant* and maternal mortality rates have fallen sharply in recent years, in the south as well as the north.

There are some indications that the health service is becoming more efficient. The average period each patient spends in hospital has been re*duced considerably*. In the mid-1970s the period was 19 days, a disastrous figure which reflected the lack of day-care facilities for simple tests and the fact that patients frequently *waited days* before seeing the necessary specialist. Now 12 days is the average. The average stay for British NHS patients is about 10 days.

Where the health service goes from this point is hard to forecast. Sig Altissimo hopes that two recent measures, to raise the pay and status of doctors *in the system and to alter the* rules about the composition of regional and local management boards in order to increase expertise and reduce politics will go a long way to releasing the administrative logjam.

The ministry is also close to completing a computerised management information system *which, it says, will offer* up-to-date financial and operational information for the first time and so actually enable the ministry to manage.

Quite clearly, however, not much is going to improve unless the politicians show more commitment to making the system work and less to machinations inside and outside Parliament which frustrates its operation.

Nor will administrative reforms allow Sig Altissimo to evade the question being faced now in all countries: that an ageing and increasingly sophisti*cated population will demand* better health care, which in turn demands more resources.

Some say it was simply a mistake to try to apply to Italy, whose southern half lacks a sound administrative tradition, a structure worked out over decades in Britain and Sweden. "We still believe the idea is right," says Dr Gilardini. Making the idea work in practice will be a major test for the Italian state in the 1980s.

Ian Hargreaves

Crime, terrorism and the man in charge of fighting them

The professor of order

SIG VIRGINIO Rognoni became Italy's Interior Minister in the worst crisis of the Ministry since the war. He *took over in June 1978* from Sig Francesco Cossiga who resigned because of the failure by Italy's security forces to find the Red Brigade kidnappers and killers of the former prime minister Sig Aldo Moro.

The choice of the mild-mannered law professor to *run the country's largest and* most difficult ministry surprised many Italians, but the prime minister of the day, Sig Giulio Andreotti, had a tough time finding a suitable candidate at all.

***Today* the picture has changed almost beyond recognition. Sig Rognoni, 55, carries authority and prestige in the new Fanfani Government rivalled only by that of the Foreign Minister Sig Emilio Colombo. *In his* five years at the Interior Ministry, the state police force has been *reformed* and left wing terrorism drastically reduced. Much of the credit must go to Sig Rognoni.**

At first Sig Rognoni seemed destined for a career as one Italy's leading jurists and he *is still on leave of absence* from his chair of procedural law at Pavia University. He was first elected to Parlia*ment in 1968*, and was Vice President of the Chamber of Deputies for two years from June 1976. He does not have a *strong following ins*ide the Christian Democrat Party, though he writes extensively on its structure and policy. He is the model of a modern, northern Christian Democrat.

He has a diffident charm, and unusually for an Italian politician, he answers questions directly and briefly. "*Prudence is the hallmark of* everything he does," says a fellow deputy from northern Italy, *Andrea Borri* from Parma. "He does not talk a lot, and he keeps his own council."

In conversation, Sig Rognoni seems more the academic than the politician. *He has a charming habit of* producing trays of chocolates while conversing and thrusting them in the hands of anybody in the room at the time.

His closest aides say that it *is his control over the* minutiae of his office which is particularly impressive. The Interior Ministry is a monster which still carries a slight air of bureaucratic confusion from the old Bourbon rule of southern Italy. Besides administering the main police force and internal security, it looks after matters as diverse as civil defence, priests' salaries and the *rehabilitation of drug* addicts.

Not that Sig Rognoni's conduct has been always above criticism. The police and the Interior Ministry apparatus was criticised even by President Pertini himself during the hunt last year for the kidnappers of General James Dozier.

However, the day of the general's release was one of the best days of the year for the Minister, according to one of his assistants. The Minister was particularly happy as one of his former bodyguards was in the police commando which broke into the terrorists' hideout *in Padua*.

On the day he learnt of the murder of General Carlo Alberto Dalla Chiesa by the Mafia in Palermo last September, he was near to despair and quite emotionally upset, his wife revealed in a magazine article recently.

"When the going has been tough she and the family have always been very supporting," says Sig Rognoni. "But when things are a bit easier, I think they would like me to think of giving up."

For the moment he says he is content to go on until the general election, which he now expects to be after the present legislature has run its full term in June 1984, and then he will give up.

Because of his lack of a power base inside the Christian Democrat Party, even his admirers do not see Sig Rognoni as a future Prime Minister, but they do see him destined for high office outside Parliament, possibly as an eventual candi*date for the Presidency of the* Republic.

Sig Rognoni, Minister of the Interior: authority and prestige

Robert Fox

The Mafia moves in

UP TO two years ago you could walk into any major book shop in Italy and find up to 20 recent books displayed about various aspects of Italian terrorism. Most were about the Red Brigades and the majority of those were on the kidnap and *murder of Sig Aldo Moro in the* spring of 1978. Terrorism was the favourite subject of academics, politicians and journalists. Now the same shelves in the book stores are covered with new titles about crime, and fresh studies of one of the oldest organisations in modern Italy, the Mafia.

The Mafia with its Calabrian and Neapolitan confreres, the 'Ndrangheta and Camorra, has been with Italy since reunification, but in 1982 the criminal societies seem to have been more active and bloodthirsty than ever. *According to* Interior Ministry figures, 373 people were murdered last year in the region of Campania, some 255 of them in the province of Naples. In Sicily there were 330 murders, of which 151 were in the province of Palermo and 77 in Catania. In Calabria there were 147 killings, while in Lombardy, Italy's most populous region, there were 112.

Active

Many murders in the south and quite a few in the north, say *Interior Ministry officials*, are the result of feuds between the "new families" grabbing power in the Mafia organisations of Sicily and the Camorra networks in Naples. The chroniclers of the new wave of organ*ised crime are drawn time and* again to Raffaele Cutolo, leader of the most active family of Camorra. He has been in jail for two years now and has just received a further three years for carrying weapons at the time *of his arrest*.

Raffaele Cutolo's organisation is said to resemble a criminal limited liability company, complete with a board of directors that meets fortnightly, at one stage consulting him frequently in jail, though he is now in solitary confinement. His operation is said to have been based *on extortion with a turnover of* up to £50m a year.

But the growth in Mafia operations, says Sig Virginio Rognoni, the Interior Minister, is due to the increase in drug trafficking through Italy in recent years, heroin coming from the Middle East and the Golden Triangle of South East *Asia, and cocaine coming* from Latin America.

"Drugs and organised crime are now the biggest national problem facing Italian society," Sig Rognoni has written recently. In January Italian police, with help from the U.S. Drug Enforcement Agency, raided a shoe factory outside *Florence and seized 80 kg of* pure heroin, which would make 160 kg of "cut" heroin for the streets of New York wither it was destined.

It is believed to be the biggest seizure of pure heroin ever made in Europe and at the time of the seizure a Sicilian Mafia boss, Pietro la Baraba, was arrested. Three days later his friend Nunzio la Mattina was gunned down inside a Palermo hospital.

The Interior Minister is now devoting more of his Ministry's resources to anti-Mafia and anti-drug operations and is actively seeking help on the international scene. This spring he *hopes to welcome Mr William* Whitelaw, the British Home Secretary, on a visit. He will seek Scotland Yard's help in drug law enforcement.

Sig Rognoni says that the position of Italy *is pivotal in* the present cycle of the drugs trade; not only because of traditional ties with America north *and south, but also because of* the French connection. The trade through the refineries of France seems to have been smashed, at least temporarily.

However, neither he nor his staff are complacent about de*feating terrorism in Italy*. The Minister likes to talk of an atmosphere "of a return to normality," but he warns against the security forces dropping their guard against a further terrorist onslaught in the future.

"It is going to be difficult for terrorism of the kind practised by the Red Brigades to regenerate itself on the same lines. But I think we must be worried about new movements *using new methods of recruiting* and carrying out single incoherent attacks like the old anarchists used to." A document produced by the Communist Party in Rome has shown evidence of Red Brigades recruiting again, with more subtle methods and greater security, among the unemployed in the outer suburbs of the capital.

The record for last year and the early part of this is impressive for the number of arrests of suspected terrorists and convictions. No less than 807 presumed terrorists were arrested in the first 10 months of 1982 and last October there were 1,357 left wing and 840 right wing terrorists in prison.

At the end of January 63 people were convicted for the kidnap and murder of Sig Moro, the first of a new wave of big trials of terrorists.

Much of the success must be attributed to Sig Rognoni, his ministry and the police forces under him which have been given a dramatic face-lift. In 1981 the state police were demilitarised and given trade *union rights* and improved pay scales. This has led to better recruitment with more recruits coming from the industrial north.

Success

Counter terrorist operations have been co-ordinated successfully by single commands such as UCIGOS (central unit for general investigations and special operations). Muddles between the three main police forces, so conspicuous during the Moro case, are now much rarer.

An important reason for *success against terrorism* was the amnesty law for "penitents" *which recently expired. About* 400 have benefited by the law's provisions for lighter sentences.

The most notorious, Patrizio Peci, a former head of the Turin "column" of Red Brigades, is now out of jail having served a token two years since his arrest. He contributed to the arrest of dozens of ex-colleagues.

The breakthrough that made last year such a good one against Left-wing terrorism was the spectacular release last January of Gen James Dozier, an American Nato force commander in Italy, from Red *Brigade kidnappers in Padua*. The psychological effect of that success was almost as important in weakening terrorism as the subsequent police work.

However, the Dozier rescue has now become another typical Italian mystery story. Time Magazine reported recently that the tip-off of where the General was being held came from an amnestied member of the American Costa Nostra in contact with the Italian Mafia. "This is false," says Sig Rognoni. The operation which led to the General's rescue was entirely an Italian police operation."

Yet there was a precedent in using Camorra or Mafia contacts to rescue a kidnap victim of the Red Brigades. Sig Ciro Cirillo, a regional councillor from Naples was seized in the summer of 1981. Colleagues and friends of the councillor are said to have visited Raffaele Cutolo, the Camorra leader, in jail, and in due course the councillor was released. Like many of the outrages of Right-wing terrorism this story remains a mystery.

If the Dozier rescue was one *of the biggest* successes for the security forces last year then the murder of one of the greatest anti-terrorist experts, Carlo Alberto Dalla Chiesa, a former Carabinieri general, was one of their greatest setbacks. He was *murdered with his young wife*, Emanuela, in a Palermo street by gunmen of the Mafia last September only five months after taking up office as Prefect of Palermo and head of the new high powered anti-Mafia commission.

Throughout the summer he had used intelligence methods *to examine the power networks* and business interests of the powerful in Sicily and their connections and allies in the north. He scrutinised bank accounts, investments, tenders for public works, and construc*tion firms, traditional areas of* Mafia business activities.

Offence

The *only good thing* that came out of it was that Parliament approved a *new* anti-Mafia law which has been delayed for years. For the first time in Italian history, the new law makes it an offence to belong to a Mafia organisation, gives greater penalties for criminal conspiracy and allows investigation of all business aspects of Mafia suspects. It is difficult to say if these provisions will lead to a breakthrough against the Mafia. The famous vow of silence and loyalty "Omerta" is still a powerful weapon in the hands of the bosses.

However, already some of the results have been impressive. On February 14, police rounded up dozens of Mafia suspects in *several cities. Many* were the so-called "untouchables." Building enterprises, public contracts, a chain of boutiques and jewellers, hotels and bars were examined.

The Majestic Hotel on the Via Veneto in Rome was impounded. The operation is said to have aimed at smashing links between *Camorra, Mafia and* organised crime in New York and Canada. At the same time a massively complex trial involving drugs and arms trading through Italian and Turkish Mafia based in Bulgaria opened in Trento.

R.F.

Sig Gianni de Michelis, the Socialist Minister for State Shareholdings: he will be a major political force if state industry losses are eradicated next year

Members of the extreme left group Lotta Communista (Communist Struggle) selling books on Karl Marx outside an Italsider steel plant in Genoa

Ian Hargreaves reports on the performance of state industry

Aiming to break even

"I AM convinced that it is only a question of a few years more and we will reach break even." So, after three years in office, states the ever-confident Sig Gianni de Michelis, Italy's Minister of State Shareholdings.

For Sig de Michelis' enemies and critics, such statements are mere hubris. After all, they point out, the combined losses of the thousand or so companies and 700,000 people embodied in the complex Italian state sector of industry amounted to an estimated L4,300bn ($3bn) last year, a situation scarcely designed to bring comfort in an economy struggling with an unprecedented public deficit, a weak balance of payments and, in European terms, a relatively large exposure to the world's most troubled industries.

But for once, Sig de Michelis has some figures on his side. This year's losses of the three state holding companies IRI (steel and other industry) ENI (energy and chemicals) and EFIM (miscellaneous), will be lower than the L5,200bn in 1981, despite the fact that financing charges continue to impose an increasing burden since the Government has failed, for obvious budgetary reasons, to deliver on its promise to recapitalise major companies in the sector.

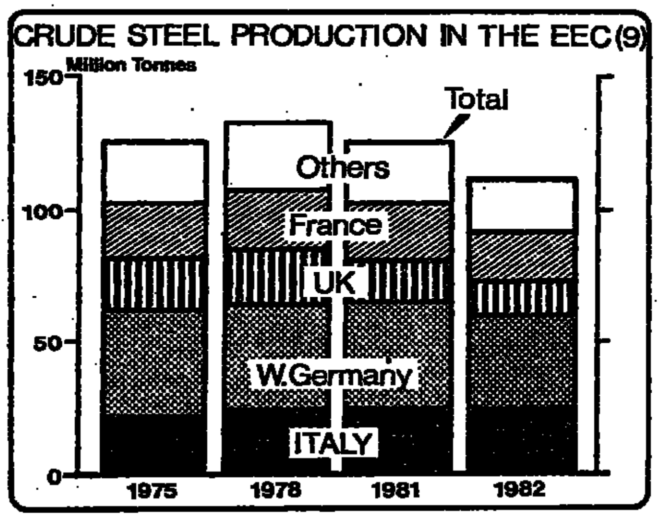
The debt of IRI, which includes the Finsider steel company, rose last year by over a fifth to L35,000bn, a level not far short of the group's sales of L36,260bn.

'We cannot close an entire steelworks any more than they can in Germany'

More important, however than modest reductions in what remain huge losses, are the changes in strategy which Sig de Michelis has imposed upon the key sectors of steel, chemicals and telecommunications.

The steel story in the last year has turned upon Italy's duel with the European Commission over capacity cuts.

Earlier this month Sig de Michelis was able officially to inform Viscount Etienne Davignon, the EEC Commissioner for Industry, that Italy is now prepared to remove 2.6m tonnes a year of steel capacity, rather than the paltry 0.6m tonnes offered earlier and rejected out of hand by the Commission.



Italian steel production has, until recently, remained almost constant since 1975, while other main EEC countries' output has fallen. Sig Michelis has told the EEC that Italy is now prepared to cut 12.6m tonnes a year from its steel capacity

Although still well short of the 12m tonnes cut—equivalent to over half the Italian industry—requested by the Commission, the new figure does seem to have been accepted as at least the basis of substantive negotiations in Brussels and at home, ministers have embarked upon the long and treacherous road of trying to sell the detailed consequences of the proposal to the unions and to the governments of the regions affected.

The strategy is to spread the cuts across all the major steel centres, although the hardest hit will be Finsider's Cornigliano works in Genoa. The intention here is to reduce the number of blastfurnaces from four to one, the number of continuous casters from two to one and to use the works's modern steel furnace at only half capacity.

"We cannot close down an entire integrated steelworks any more than they can in the Ruhr," says Sig de Michelis.

In arguing against bigger cuts he also makes much play of figures on the ratio of production to home consumption, which in the case of Italy show proportions of 1.05:1, compared with 1.1:1 in France and Germany and 2.5:1 in Belgium and the Netherlands.

Although Italy is a net exporter of steel in volume terms, the bulk of this export surplus is in tubular products and the lower grade items such as reinforcing bar from the private sector producers around Brescia.

At the same time, Italy is a net importer of both sheet and tinplate—both Fiat and Zanussi are major importers—and this enables Italian politicians to argue in Brussels that the ratio of production to home consumption for Finsider, which it controls directly, is equal only to that of Britain, at 0.85:1. For Bresciani-type products, the argument runs, the ratio is 1.21:1, but here the Italians say they are competing principally with third country importers to Europe, rather than the home industry.

This is one reason why the Italian Government is now offering to draft a law which would give it powers to prevent any increase in capacity in the private sector, although whether such a law would be used in practice is perhaps another matter.

Meanwhile the Bresciani producers, having just come through the most difficult year in their recent history, are investigating ways of improving their position in the Italian market and raising the level of sophistication of their products.

In chemicals, the pressures to restructure have been less those of international politics than of the marketplace pure and simple. In an attempt to sweep away the debris of huge and ill-planned expansion in the 1970s, Italy is now in the middle of a second round of cuts in basic chemical production which will reduce the ountry's ethylene output by 25 per cent, taking it to 1.5m tonnes by the end of this year.

The Government has also been frantically attempting to devise a rational structure for the industry, disposing of its own stake in Montedison, while at the same time agreeing to take over from the same company its heavily loss-making upstream activities.

The hope is that an efficient raw chemicals and plastics industry will emerge from the rubble, enabling Italy to eliminate its perplexing, and in Sig de Michelis' view "totally unnecessary," L2,000bn deficit in the plastics trade.

It is still not at all clear, however, where the funds for this streamlining and new push for markets will come from, although operational losses should be significantly reduced as a consequence of the falling oil price. Sig de Michelis has written into his plans investment funds for the state industrial sector of L9,000bn this year, but he merely shrugs when reminded of the fact that last year a planned L7,000bn was whittled down in practice to L4,000bn.

The vehicle for the state's chemical ambitions is now Enoxy Chemical, the confusingly named company which became fully owned by ENI late last year when the proposed joint venture between ENI, the state energy company, and Occidental Petroleum of the U.S., collapsed.

Although Occidental has now departed from the Italian chemical scene, some hope is attached to the fact that the aborted deal has left Enoxy Chemical with enhanced, American marketing expertise.

For Sig de Michelis, however, the formidable amount of energy erquired to force change in chemicals and steel is matched by his determination to create a master plan for newer industries.

He has made most progress so far with telecommunications, bringing in GTE of the U.S. as a partner and hoping soon to sign a second deal for either ITT or Ericsson switching technology, which will allow both companies to continue to manufacture in Italy and, hopefully, to contribute to the development of a domestic information technology industry.

Sig de Michelis' overall plan has both clarity and conviction

"In Italy we have to follow a defensive strategy of alliances," says Sig de Michelis. He acknowledges admiration for the approach of Jean-Pierre Chevenement, the former French Minister for Industry, in seeking to use the state sector as a vanguard for industrial change and technological advance, but says he is not interested in following the Mitterrand Government example of extending the state sector.

"For many decades we have had no strategy for bringing in foreign capital," he says. Now, that strategy involves securing guarantees about the new partners' commitment to carry out research in Italy and to use the country as an export base.

Sig de Michelis, a Socialist, was the first Italian minister to visit Paris after the election of President Mitterrand and he has been closely involved since then in the efforts to create closer ties between the two countries.

There have been numerous exchanges between industrialists and civil servants, although so far the concrete results have been less than spectacular. Sig de Michelis says, however, that there are 18 definite Franco-Italian projects under discussion. He expects agreement soon on one, a joint venture between Siv, part of the state sector, and St Gobain, to build a new float glass plant in Genoa.

Even more grandly, he speaks of the EEC taking a lead in Community-wide initiatives in newer industries and conjures up the vision of Viscount Davignon gesturing into existence some transfrontier microelectronics super-company able to take on the Japanese and the Americans. Reminded of the failure of similar if less ambitious projects in the past, such as the now defunct Dunlop-Pirelli Alliance, he comments merely that in thosa days "the overall atmosphere was not right."

Others may find it harder to make such breathtaking leaps as that from the multibillion lire losses of the basic industries to the prospect of new alliances in information technology, and may feel that the only thing to have changed in the atmosphere is the arrival at the ministry of Sig Gianni de Michelis. Even then, they say, Sig de Michelis's ministry is still relatively weak, compared with for example the Industry Ministry or the Treasury, in the government pecking order.

What they cannot deny, however, is both the clarity and conviction of the de Michelis gospel. He has promised that the entire state sector will break even by the end of 1984. If industrial and political circumstances permit him to deliver on that, he will be a force in the land indeed.

Small firms ready to respond

"I KNOW a lot of industry is in trouble but we happen to be on overtime at the moment. We can respond to demand in a jiffy." The businessman speaking is in the ceramics industry but his words could apply to many a small company in almost any part of Italy.

While large companies are often doing badly, or holding their own only thanks to big reductions in the payroll, Italy's enormous network of small industrial businesses still contains many pockets of activity that appear almost immune to recession. And, because of the essentially flexible nature of the small business network, the effects of recession tend to be absorbed more painlessly than is the case with large companies.

It is almost impossible to draw an accurate or complete picture of how small businesses are faring across the country, partly because of their discreet, often secretive nature. But the general impression is that some sectors are still doing well, others are coping reasonably with zero growth and most industries will be able to step up production again far faster than most of their European competitors when the upturn *finally* arrives.

Small businesses have transformed the economic and sociological map of Italy in the past two decades. The "industrial triangle" of Milan, Turin and Genoa is no longer the only heartland of Italian industry: there are dozens of thriving industrial centres to the east and south east of that triangle in the Veneto, Friuli and Emilia Romagna, and the thread can be traced down the Adriatic Coast through the Marche and even into Puglia in the heel of Italy. It also runs down into Tuscany, Umbria and to the area just south of Rome.

Whereas traditional industry in the triangle is associated with the name of a big company, like Fiat or Ansaldo, industry outside the triangle is more likely to be associated with a place and a product. Thus Reggio Emilia, described elsewhere in this survey, is the centre for the farm machinery industry; Parma for food processing and the making of food processing machinery; and Bologna for machine tools.

But whereas these cities are substantial places with a good range of other activities there is another tier of towns which produce only one or two, usually related, products: Montebelluna, in the Veneto, for ski boots and sports shoes; Carpi, near Modena, for knitwear; Prato, outside Florence, for cloth; Barletta and Trani, in Puglia, for shoes; and Solofra, east of Naples, for leatherwork, to name but a few.

In some of these towns, the industry is concentrated in the outskirts and in the surrounding villages. There may be one or two medium-sized companies, providing leadership, but in others the leadership may be supplied by nameless middlemen who allocate production among small and microscopic businesses, who in turn pass on work to members of families working in their kitchens and backrooms.

Whether they are located in a single product industrial centre or not, almost all Italian companies use outworkers and small subcontractors, even in sophisticated product fields. The company giving out the work may well employ directly only a quarter of the people to whom it gives work.

The flexibility of the system means that in a place where particular skills are available (either because of a historical connection with the trade as in Prato or because a large company has fairly recently trained a big workforce) small companies can quite quickly get under way.

Professor Romano Prodi, the Bolognese economist who now runs the unwieldy state conglomerate IRI, says some small business networks are so sophisticated that they represent "economy of scale at the level of the system rather than of the single company."

This exists particularly in the engineering industry, specially with machine tools. There are relatively few even medium sized companies in this industry: instead there is a network of small companies, many of which are highly specialised, and the system can only work if everyone knows what everyone else is capable of making.

Why has Italian industry developed so much along these lines in the past 20 years? The basic reason is probably the industrial backwardness of most of Italy until after the Second World War. The new entrepreneurs and their workers are mostly first time industrialists, having started as artisans or farmers. Unlike the weary workers of the big plants in Italy or elsewhere, they may think nothing of working a dozen or more hours a day, as they did on the farm, or travelling the world clinching deals.

The more far-sighted local administrations have assisted the growth of industrial networks based on small firms through planning and through laws. There exist associations such as Confapi (the confederation of small and medium sized industries) and Confartigianato (the confederation of artisans) who can in some cases provide finance, and each organisation is closely linked to medium term banks, such as Mediocredito, which give out concessionary loans, assisted by the State.

The advantages of the system include speed in building up and running down production, and avoidance of the need for heavy concentrations of capital in the hands of one entrepreneur. A textile manufacturer does not have to invest in all the machines needed to produce his output, but can leave some of the investment to his suppliers, who will be working for his competitors as well. But in some cases he may help them with funds.

Despite the assistance available, the small business sector often suffers acutely from the undercapitalisation that plagues almost all Italian industry. Another weakness is that it is increasingly being shown that only large companies have the resources to carry out research and development in advanced technological subjects, and it has to be said that the Italian small business networks are not usually in technologically advanced sectors. Where technology is sophisticated, larger companies tend to emerge if they can and the smaller ones to close, as has happened with the ski-boot industry in Montebelluna.

Where the small Italian business sector fails it is often because the entrepreneurs grow too fast, find the going too easy for a time (perhaps thanks to their relatively cheap production base) and neglect to keep innovating. This is another of the lessons of the collapse of part of the Montebelluna ski-boot industry, whose share of the world market almost halved in a couple of years. Significantly, the most successful survivor, Nordica, appears to have used the financial and management techniques of a sophisticated northern European company from the start.

On the other hand there are examples of small Italian businesses surviving against the odds: for example the shoemakers of the Verona area, and no doubt those in other centres, faced a crisis thanks to Far Eastern competitors around 1980. But they swiftly recovered: they moved upmarket, and found that their customers quickly became disillusioned with the allegedly unreliable delivery and poor quality of the Asian manufacturers.

JAMES BUXTON

SMALL COMPANIES' SHARE IN MANUFACTURING

	Establishments		Employment		
	Total ('000s)	Small cos'* share %	Total (m)	No. ests. per 100,000 employed	Average no. employees
Italy	628.5	99	5.3	11,850	8
UK	108.0	94	7.11	1,520	66
U.S.	350.8	94	18.52	1,890	53
West Germany	93.1	93	7.48	1,240	80
Japan	744.3	99	10.89	6,830	15

* Less than 200 employees.
Source: Department of Industry.

Small businesses have transformed the economic map of Italy in the last two decades. They now play a far greater role in the economy than those of other major industrial nations

Fortunes improving for big commercial television stations and movie makers

A scene from Zeffirelli's £3.5m La Traviata. The film, which will be screened in Britain in the autumn, is already doing well at Italian box offices

State TV network facing increased competition

THE STORY for Italy's strongest private television companies last year could be summed up by the title of the country's most popular quiz show of the 1950s and 60s. "Lascia o Raddoppia," 'Double Or Quit,' a straight copy of the American 'Double Your Money.'

The most powerful have increased audience levels and advertising revenue, while others have disappeared. The protagonist of "Lascia o Raddoppia," Mike Buongiorno, "Il re dei quizz" (the quiz king) has had recent success with another quiz show for the RAI (the state-owned network). But now he has quit for the most powerful private TV company, the Milan-based Canale 5 owned by the Berlusconi empire. There he has introduced a revamp show called "Super Flash."

For stations like Canale 5, Italia 1, and Rete 4, 1982 was an "annus mirabilis" in which they put the state networks under pressure as never before. Canale 5 now regularly pulls as big an audience as the RAI second channel at prime time—about 15 per cent of the total audience of 22½m. RAI Channel One pulls about 37 per cent, or 8m.

The achievement of the major private companies is the more remarkable because of the legal restrictions on their activities. There is still no law stating their responsibilities and rights. Technically, under Constitutional Court rulings, they are not allowed to form networks. As Piero Ottone, director of Mondadori, the Milan publisher now involved in Rete 4, puts it: "The politicians show little inclination to do anything about it and clear up the confusion by getting a proper broadcasting law through Parliament."

Yet audiences for television in Italy rose 23 per cent between 1977 and 1982, according to Nielsens Marketing Agency of Milan, while those in America rose only by 11 per cent.

The pattern of broadcasting stations in Italy is as confusing as the country's political divisions. In the mid-1970s about 500 private TV stations emerged. The majority are clinging on but only just, according to research carried out by the RAI.

Political

Only about 100 attract national advertising and 60 per cent of those are tied to Canale 5 and Italia 1 interests, or to the rival group of Rete 4 controlled by Mondadori.

There are thought to be over 2,000 radio stations but most broadcast to tiny communities in the north and centre. The radio stations are probably the most politicised of all the media in Italy.

The story behind the various interests that combine and compete to run the private stations and networks is often more exciting than what they offer on their screens. About 80 per cent of programmes is canned material, usually films and situation comedies from America, South America, Britain, France and Germany. One frequently sees re-runs of Perry Mason, westerns like "The Virginian" and "Rawhide," Syd James comedies and a large amount of soft pornographic material.

Only 9 per cent of private transmissions is "information" or factual, says the RAI's research department, and most of that is sport, the favourites being basketball and ice hockey. The RAI says 35 per cent of its programmes are devoted to news, current affairs, sports news and documentaries.

Even so the private stations have come a long way. "Gone are the days when the local barber wanted to see himself on television. Then it was the TV of bar talk," says Sig Ottone of Mondadori. "In those days every local businessman wanted to get into software."

However, the stations' facilities were often pathetic. In many cases the broadcasting radius was a few kilometres. From the first, big commercial, particularly publishing, interests began to see the potential but they were thwarted in their main aim of creating rival national networks to the RAI.

Franchise

In 1976 the matter was put before the Constitutional Court, which ruled that the RAI could not insist on a monopoly in broadcasting in, as the judges put it, "l'ambiente locale" (the local environment), but the private companies could not have national networks.

Since then the bigger companies have developed chains of stations, or "tape networks" as they like to call them, shipping taped programmes to each station in the franchise to be transmitted at the same time.

This gives a quasi-network but there can be no simultaneous live broadcasting.

None the less the RAI felt sufficiently alarmed to refer the matter to the court of the Pretore of Rome, where the company claimed that private stations had broken the 1976 ruling about restricting themselves to the "l'ambiente locale." The case was brought before the Pretore in 1981 but last year he referred the matter back to the Constitutional Court for a further ruling. The case is still pending.

Meanwhile, there were dramatic changes in the scene last year as the giants of private commercial television steadily slugged it out like two bruisers in a Damon Runyan story. The biggest group is now owned by the property magnate, Sig Silvio Berlusconi.

A former singer in Paris bistros, he made a fortune in the post-war property boom in Milan and then moved into publishing. In the 1970s he acquired a large share in the conservative daily Il Giornale Nuovo, edited by Sig Indro Montanelli. He then moved into television with Canale 5, the most polished of all the private television networks.

However, other publishers were hovering on the edge of the television market. The Rizzoli group began planning its operation, once intended to provide a rival news service to RAI, but it has had to drop the idea. The more conservative Mondadori group waited to see what the outcome of the 1976 Constitutional Court ruling would be, but in the absence of any new law on broadcasting being laid before Parliament, decided to take the plunge. Mondadori combined with Caracciolo and Pierroni, two smaller publishers, to set up Rete 4.

Rete 4 and Canale 5 provide the model for successful commercial stations. Working in the American style there are four or five wholly-owned parent stations which feed programmes and advertising to affiliated local companies in the franchise. Rete 4 is linked to about 20 companies and Canale 5 about 25.

After the two leaders came Italia I, an enterprise set up by another successful publisher, Sig Edilio Rusconi. It is smaller than the other two groups with about 17 stations. Last year Sig Rusconi sold out and, after a battle in which both Mondadori and Berlusconi bid for this company, Berlusconi won with a payment of L22bn and an exchange of shares. Now Berlusconi is running two enterprises drawn together under the umbrella title of the Fifth Network though the two subsidiary companies still maintain their identities.

The private networks are now trying to match their programming to the battles in the broadroom. Rete 4 is screening the American series "Dynasty," while Canale 5 is showing "Dallas." Canale 5 and Italia 1 are pushing hard for rights to transmit live throughout their chain and Rete 4 are training news cameramen and reporters in America. Now Rete 4 has made an agreement with the ABC network and Canale 5 has made a similar one with CBS, RAI planners are clearly worried.

Last year the RAI share of the audience for television throughout the country declined from 70 per cent to about 50 per cent according to Nielsens. However, the RAI says that its audience is holding up at peak times.

This year the agency projects that television, state and private, will take more than L1,000bn in advertising revenue, of which L350bn will go to the RAI.

RAI is restricted by law to showing only 5 per cent of viewing time as advertising but last year private stations devoted 14 per cent of air time to commercials.

The RAI still has a trump card with its domination of news coverage. It claims 90 per cent of adult Italians go to television for news and information while only 40 per cent read a paper.

The direction of news is heavily controlled by the peculiar political alliances involved in the company's management, a prime example of the parcelling out of power between the parties known by the unattractive expression "lottizzazione." As one senior RAI executive succinctly and bluntly put it when I asked about the future of the state networks: "In the end everything with the RAI depends on the politicians."

Robert Fox

Film industry enjoys revival

THE FILM-MAKING centre in Rome that once provided the sets for such dazzling classics as Ben Hur, Cleopatra and La Dolce Vita is slowly but surely rediscovering its former glory.

A couple of years ago a decline in the industry looked as though it might force the closure of the historic Cinecitta complex on the southern edge of Rome. There was even a suggestion it might be converted into flats.

Cinecitta had been badly hit by industrial strife, the legalisation of private television stations and the tendency of many top Italian directors to price themselves out of the market with too costly productions. By 1980 ticket sales had reached an all-time low of 240m.

With tickets costing as much as L5,000 each (then worth about £2), it seemed that only American films such as Star Wars or Grease could lure Italians out of their homes.

But a glance over the entertainment section of any Rome newspaper shows the situation today is far less gloomy with numerous new Italian productions on the market.

For one thing Franco Zeffirelli has completed his £3.5m version of Verdi's La Traviata, made in Cinecitta's studio number 5, reputed to be the biggest single studio in the world, with fine performances by Teresa Stratas and Placido Domingo, and one of Verdi's greatest scores, it is already doing well at Italian box offices.

Not all Cinecitta's latest offerings are on the grand scale of Zeffirelli's extravaganza. The story of Piera, directed by Marco Ferreri, for instance, would very likely never be seen outside Italy were it not for Marcello Mastroianni's presence in the cast. Even if it is not particularly ambitious, this film about a budding Italian actress contending with lunatic parents is diverting enough.

Confidence

Apart from those films already released, others are in the pipeline. For nearly a year now Cinecitta's 12 studios have all been rented. How has this change come about?

In the first place, industrial relations have improved beyond recognition after the harsh wind of recession cut the ground from under the feet of many overpaid local actors and production staff.

Then there is greater public confidence in the complex that was once, after all, known by the grotesque title of Hollywood On The Tiber. That came about after the company, part of the cinema management organisation that, in turn, is part of the Ministry of State Shareholdings, announced it would sell off about a quarter of the site to a building company—a move that is expected to wipe out the studio's estimated $9m worth of debts.

The company has in addition said it is speeding up the installation of sophisticated electronic equipment to enable the studios to cash in on the growing vogue for films made for television.

For a time, in the late 1970s, it seemed as if all of Italian film-making talent was being directed towards small-screen productions. Ermanno Olmi's Tree of the Wooden Clogs, which won first prize at the 1978 Cannes Festival, and the Taviani brothers' Padre Padrone, which was awarded the same prize at the 1977 festival, both began life for television.

Sponsorship

This year sponsorship by RAI, the state television company, or by one of the private channels is still producing occasional masterpieces like the Taviani brothers' Night of the Shooting Stars, a gripping tale of treacherous fascist blackshirts and resistance fighters with the directors' by now customary haunting shots of the Italian countryside.

The new facilities in Cinecitta will allow some more of the income from such films to be ploughed back into the Italian film industry as a whole.

Set building facilities are also being improved, to help keep production time, and therefore cost, to a minimum.

The result is that some of Italy's best known directors have decided there is no place like home, with its stately pines and hangar-like studios. The complex has aged extraordinarily well since Mussolini inaugurated it in 1937.

The Spaghetti Western is making a comeback in the form of Sergio Leone's C'era Una Volta L'America. On the waiting list for studio space are a remake of the Last Days of Pompeii, A Thousand and One Nights and a film based on the Pratolini novel Lo Scialo.

Among the prodigal filmmakers is Frederico Fellini, who who is shooting his two-year-old idea about a group of notables trapped in a luxury liner at the start of World War One.

A visit to his studio makes it seem a miracle that the maestro ever manages to complete a film at all. He begins screening, it seems, with almost no story line in mind and every prospect of overshooting his budget.

Casting the film called E La Nave Va (And The Ship Sails On) was an equally haphazard process—Freddie Jones, the English star of the film, just had time to hand Fellini a snapshot of himself at a split-second meeting in London before the director flew back to Italy. But Fellini was struck by the relatively unknown actor's battered but genial face and decided only he could play the inebriated journalist who is the main protagonist of the film. E La Nave Va is expected to be completed soon.

John Phillips

Hugh Routledge

The Robogate assembly plant at Fiat's Rivalta complex near Turin. Two models, the Ritmo (left) and the new Uno (right) are produced on the same line by the same robots. The Uno is Fiat's new contender in the small car market, while Ritmo is sold in Britain as the Strada

Losses still heavy but labour relations and collaboration improve

Motors outlook brightens

A STREAM of new products, far-reaching improvement in labour relations and some imaginative collaborative ventures have changed the outlook of the Italian motor industry which now believes it is in a better position than for 10 years.

However, there are still some massive losses to be reported by the three main protagonists—Fiat Auto, Alfa Romeo and Iveco—and what the industry needs to set the seal on its recovery programme is a strong revival in vehicle demand world-wide.

On the industrial relations front, the change was as sudden as it was startling. In the autumn of 1980 an unprecedented five-week strike at Fiat's Turin car plants came to an abrupt end with the so-called "march of the 40,000."

Fiat employees paraded through the streets of Turin in a "right to work" demonstration, forcing the unions to call off the action. The terrorism which had plagued the plants was also halted.

Sig Vittorio Ghidella, Fiat Auto's chief executive, says this resulted in productivity at his group's car plants in Italy improving by 40 per cent when measured against the nadir in 1979.

As a result Fiat's costs per car have come down 6 to 7 per cent a year, he claims.

The defeat of the militants has had a profound impact on Italian industry generally and certainly on the state-owned Alfa Romeo. Alfa's president Ettore Massacesi, also claims a 40 per cent productivity boost following the implementation of new working agreements early last year.

Improvement

As for new models, Fiat Auto is to spend the equivalent of £2.5bn on a new car range between 1980 and 1985 of which about £1.4bn will go on new models, £662m on new technology and £467m to rationalise facilities and incorporate considerably more automation—much of it supplied by Comau, the Fiat group's own maker of automated equipment and robots.

Sig Ghidella says the Fiat Auto policy is to sacrifice profits in the short term for substantial investment and increased market penetration.

In the search for increased volume and lower costs, the number of Fiat car underbodies will be cut from 14 to four while still enabling the company to present a 27-strong range.

By 1985 Fiat's four car "families" will consist of the Panda, the recently-launched Uno, the Ritmo (a VW Golf competitor) and a sister saloon soon to be launched codenamed 149, to replace the 131.

At the top of the range will be the "Type 4" to replace the Argenta.

Distinctive

The productivity improvements which brought Fiat Auto back to profit in Europe (unfortunately, troubles in South America wiped that out and produced a substantial overall deficit, L254.5bn in 1981) have also enabled it to separate out again the Lancia subsidiary which for a time was being drawn more and more into the Fiat car operations. Lancia is to have a distinctive range—but based on the Fiat underbodies—and separate distribution networks.

Fiat Auto is no longer fighting on too broad a front. For example, it has pulled out of the U.S. car market except for high-priced sports cars which sell in very low volume.

Says Sig Ghidella: "We decided that we were Europeans. Fiat has a long tradition in Europe. We have a fairly good image in Europe and it will improve. We have a role in Europe and can exploit it."

The momentum of Alfa Romeo's new model programme will be kept up by expenditure totalling L2,000bn (roughly £950m). However, the company aims to lessen its present heavy dependence on cars and to develop its interests in such things as aero-engine design, manufacture and repair and high technology metallurgy. These currently account for about 15 per cent of the group's turnover and the aim is to build that to 25 per cent.

Alfa's future, like that of BL in Britain, also depends to a considerable extent on co-operative ventures.

This autumn the company will unveil the new car spawned by its link with Nissan of Japan in which L60bn (£28m) has been invested. The so-called Arna project will see body parts from Nissan matched with Alfa's mechanical components. The joint car, about the size of the Datsun Cherry, will be built in Italy and sold throughout Europe by the network—Nissan's or Alfa's—which happens to be stronger in a particular territory.

Following this, Sig Massacesi promises "a whole series of introductions which will re-establish the entire Alfa Romeo range in the forefront of its market sector."

One model on the list, which should surface publicly about 1986, will draw heavily from a co-operative venture with Fiat. Components to fit Fiat's "Type 4" and a Lancia will also be used in the Alfa car. By this method the three Italian companies save on the cost of developing and producing components for relatively low-volume cars.

Fiat some years ago started a similar scheme for the Lancia subsidiary by way of a joint venture with Saab of Sweden. And Fiat makes no bones about it—the company would prefer to look outside Italy to other parts of Europe for partners for its collaborative ventures.

Joint venture

Among the most important so far is a deal with Peugeot of France to produce for the mid-1980s a completely new, highly-economic car engine to be used by both groups. The arrangement has gone slightly awry, however, because of the French Government's insistence that there should be some manufacturing in France—so production will be split between factories in both Italy and France rather than in Italy alone.

Also with the Peugeot group as a partner, there is a light van joint venture and the same Italian plant provides from one pool of components vans bearing Fiat, Peugeot, Citroen or Talbot badges.

Fiat's heavy commercial vehicle subsidiary, Iveco, is also dedicated to co-operative ventures. Sig Giorgio Manina, managing director of Iveco, predicts the truck industry will move away from its traditional vertical structure in which the truck companies make most of their own components.

Instead, they will assemble high-technology components bought in from suppliers who would be able to cover the cost of investment by producing in high volumes.

Iveco, not wanting to give up completely its chances of profiting from this switch by the industry, has chosen to go into collaborative component ventures with two North American groups—Rockwell, to produce truck axles, and Eaton, for medium-duty truck transmissions.

Stronger

Iveco also tried, and failed, to get off the ground a distribution agreement with International Harvester in the U.S. The idea was that the IH dealers would take Iveco's medium-weight trucks which did not compete with the heavier IH vehicles. But the American group's financial problems prevented implementation of the scheme. However, Iveco has managed to link with Industrial Development and Procurement (IDP) of Detroit for the distribution in the U.S. of its high-revving diesel engines produced by its Sofim subsidiary.

The outlook for heavy commercial vehicles this year is not good—and Iveco is suffering as much as any of its rivals because the oil-producing countries have run short of cash for trucks. Algeria, Libya and Nigeria between them usually buy 10,000 Iveco trucks a year, for example.

But Sig Manina maintains "we are going into 1983 much stronger," following fairly drastic cost-saving measures last year.

On the car side, Sig Ghidella at the recent Geneva Motor Show forecast that European demand will be flat in the first half of this year but there should be a slight recovery in the second six-months. But this recovery will mainly be fed by the West German market and the prospect is for Italian car sales to be down a little in 1983.

Ken Gooding

Low spending on research but there are hidden strengths

FOR A country which spends less on research and development than any of the world's dozen richest economies, Italy can take some satisfaction in its performance in several industrial sectors during the last decade.

Its machine tool industry, comprised almost entirely of small, northern companies, has competed effectively against its much larger German rival and maintained a highly successful record in exports.

In Olivetti, it has one of the world's leading office products companies and its 20 robot manufacturers, including Fiat, have helped the country become one of the largest manufacturers and users of factory robotics.

But the fact remains that Italy, according to OECD figures, spends only 0.84 per cent of its GNP on research and development, compared with 2.41 per cent in the U.S., 2.04 per cent in Japan, 2.2 per cent in Britain and almost 2 per cent in the Netherlands.

"I am very pessimistic. Our politicians just don't realise the importance of science in solving the problems of modern society. There is not one minister with a scientific background," says Dr Pietro Calissano, a researcher in neurological biology with the state research institution, Consiglio Nazionale delle Ricerche (CNR).

UNIVERSITY GRADUATES: WHAT THEY STUDIED

	1972	1975	1979	1981†	1981 as per cent of total
Science	9,629	10,822	11,701	11,082	15
Medicine	5,411	8,590	14,792	15,323	20.7
Engineering	6,752	10,237	11,389	10,757	14.5
Agriculture	938	1,333	1,738	2,181	3
Economics	9,181	8,201	7,212	7,332	9.9
Liberal arts	26,070	24,910	18,099	15,589	21.1
Law	5,201	5,441	7,233	7,722	10.4
Other	1,388	1,623	3,897	4,021	5.4
Total	64,570	71,157	76,061	74,007	

† Provisional. Source: Censis, based upon ISTAT figures.

The number of arts graduates is declining but scientists say it is still too high

RESEARCH AND DEVELOPMENT RESOURCES 1979

	Italy	U.S.	Japan	Germany	UK
Total spending (U.S.$bn)	2,722	56,163	20,063	18,253	6,994
Spending as a proportion of GNP (%)	0.84	2.41	2.04	3.39	2.2
Percentage of labour force in R and D	4	n/a	11	14	11
Percentage of R and D taken by defence†	2.7	47	2.3	10.2	54.2

† 1980 figures except for Japan (1979). Source: CNR and OECD.

Italy spends little on R and D, but only a tiny part of what it spends goes on defence R and D

Negative

"I don't think Italy will ever become a first class country in high technology," says Dr Robert Taranto, general manager of Reseau, a private Milan consultancy which specialises in high technology. "We don't have the right climate or the right education system and you can't change completely the structure of your tradition."

These negative conclusions are also shared by Dr Piero Fazio, a technology expert with the Censis research institute in Rome. "We are just not spending enough," he says, "but it is more than a question of money." He accuses the state financial organisation, IMI, which is responsible for financing innovative projects, of taking too long to reach decisions and argues that the Italian effort in R and D, such as it is, is spread too thinly across too many sectors to be capable of making much impact.

These days, however, the Government and CNR, its main research agency, which was founded in 1923 and which had Guglielmo Marconi as its second president, are not without a riposte to these accusations.

For a start, says Dr Giorgio Sirilli, a CNR economist responsible for monitoring the country's R and D effort, the Italian figures probably represent a serious underestimate, especially in a field like machine tools, where small companies are more likely to categorise their work on innovation as design or engineering than research.

The official figures show expenditure of only L35bn by this industry in 1979, the last year for which figures are available. "Anyway," says Dr Sirilli, "no one can say that our success is only half that of our competitors, even if our relative spending is less than half."

CNR is also keen to point to the successes of its "progetti finalizzati," a series of "goal-oriented" research projects started in the mid-1970s and designed to foster collaboration between industry and academia in highly practical projects. A total of L480bn was spent on 18 projects between 1976 and 1982 in areas like farm machinery, biotechnology, lasers and fine chemicals.

In addition to the progetti, optimism is also expressed over the law passed last year to increase the resources of IMI and to create a new innovation fund, which will provide grants for companies in Italy's four designated priority areas: electronics, aerospace, fine chemicals and motors.

Examined in more detail, the figures also point to some potential hidden strengths in the way Italy does spend its relatively small resources.

Perhaps the most important point is that Italy, for a major European economy and member of Nato, spends very little on defence. And so, in turn it spends little on defence R and D, which accounts for less than 3 per cent of total R and D outlay.

Of course, it can be argued that the civil spin-offs of defence work are an asset and not, in terms of industrial development, an inefficient use of resources, but there is no doubt that the Italian authorities are delighted to be putting the lion's share of their R and D resources (over 40 per cent) into industrial and energy projects.

It is also interesting that for a country with a very large state sector in industry, over 55 per cent of Italy's R and D funds come from private companies (43 per cent in Britain and France). Of the money spent directly by industry, two thirds comes from the private sector. The sectors which spend most in Italy are chemicals (24 per cent of the total), electronics (19.5) and transport (25.3).

But none of these things satisfy the critics. The education system is, they say, at the high school level and beyond, irredeemably humanistic, although in fact the only disciplines to show sharp increases in the number of graduates in the past five years have been law, agricultural science and medicine.

The numbers of science and engineering graduates — just under one third of the total — have remained more or less constant.

It is a widely acknowledged truth, however, that in Italy in the past 15 years, the university system has been seriously damaged by an excessive flood of students, many of whom do not even bother to attend classes on the chaotic campuses, but whose existence has served to make both university teaching and university research a good deal more difficult.

CNR is also criticised for lapsing into an academic version of the political clientilismo which is typical of Italian public life; distributing funds around the universities with less regard for quality than political equilibrium.

Dr Cavazza is adamant that this principle of spreading funds thinly has resulted in salaries for researchers which make research unattractive in CNR. At 45, he is a senior researcher and takes home, net of tax but including family allowances and overtime, L1.2m a month ($845).

However, in the end, it is doubtless in industry itself where Italy's technological future will be made or marred.

Dr Taranto argues that even in Italy's stronger sectors, such as machine tools, there are anxious moments ahead as what is essentially a first generation industry adapts both to larger company size and, in his view, the standardisation of products which the Italians themselves have pioneered by tailoring small-batch requirements for individual customers.

Part of the answer, he believes, is in pooled component production, but he sees little evidence that the industry is ready to meet the electronics challenge which is now upon it.

Recognition

One recent study showed that 70 per cent of the sensors used in Italian robots and machine tools are being imported, as indeed are most of the electronic components used in the industry. "This is the part of the product which offers the most added value and we don't control it," he says.

At government level, however there is increasing recognition that Italy's industrial future lies not in grand, centralised projects to leap into the mainframe computer industry, such as were spoken of in the 1970s, but in using the large state companies, like Italtel in telecommunications, as agents to attract high technology foreign companies as partners, and then attempting to ensure that the technology spins off into domestic industry and exports.

Currently, only 1.4 per cent of Italy's R and D budget comes from foreign sources.

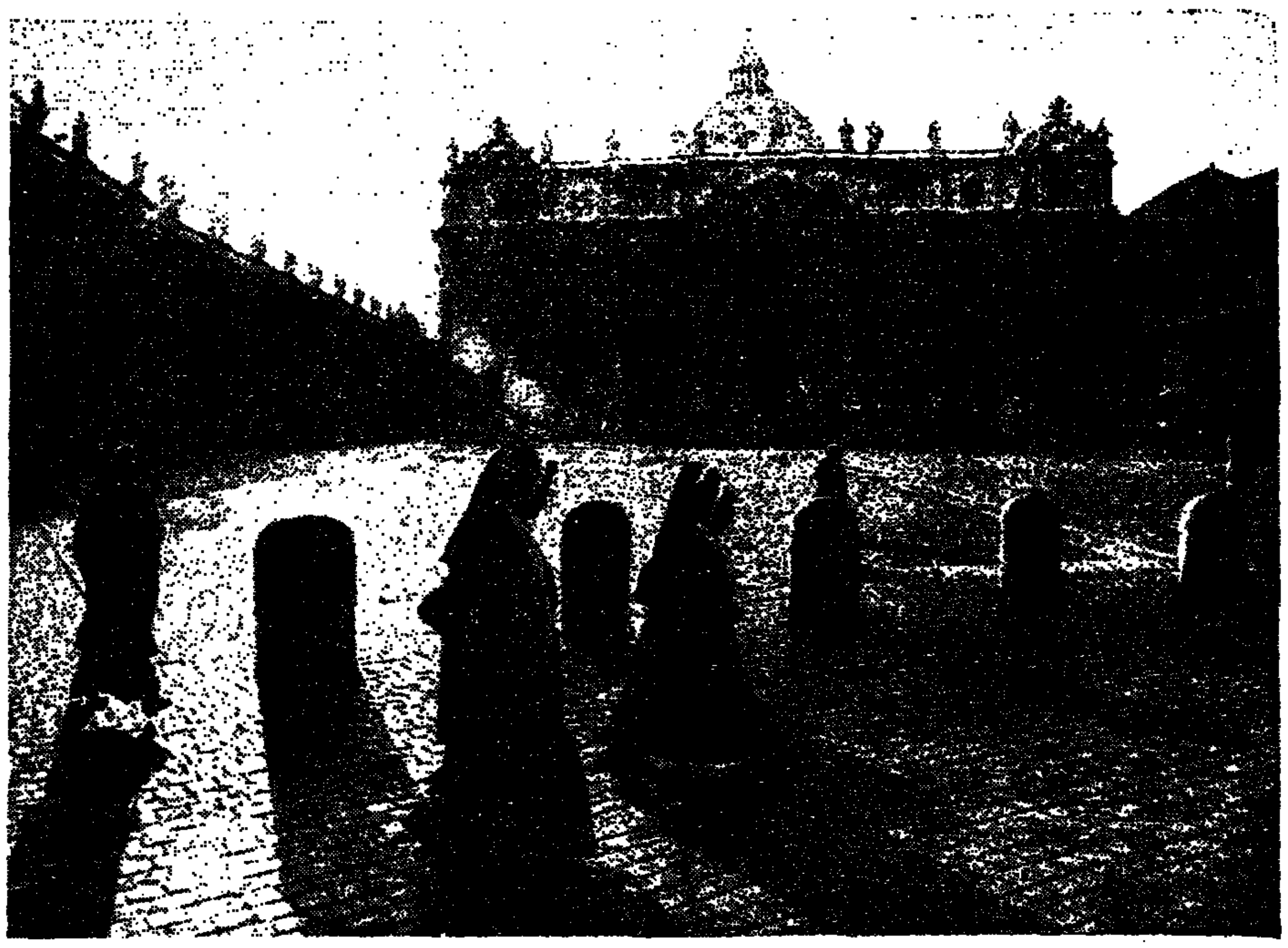
Other important joint venture areas are nuclear power, microelectronics and pharmaceuticals, the last of which is considered something of a model in the way that a domestic industry of several medium-sized companies developed. For many years Italy refused to allow anyone (ie foreign companies) to patent medicines in Italy, enabling the country's own industry to grow up through the path of imitation.

It remains to be seen, however, whether the pharmaceutical industry can emerge as a technological leader and indeed whether the whole strategy of borrowed technology can avoid the trap of fostering a branch plant economy, susceptible to erosion as labour costs rise. The recent collapse of the joint venture in chemicals between ENI, the state energy company, and Occidental Petroleum of the U.S., is also an illustration of the difficulties with which such projects are fraught.

Ian Hargreaves

The relationship between the church and state came under severe pressure last year through the Banco Ambrosiano scandal. Goodwill now exists on both sides but there are still problems to solve, reports **John Phillips**

The Pope the church, the state– and banking



Hugh Routledge

Early evening in St Peter's Square, the focal point for this year's 1950th anniversary of Christs death

MORE THAN 1,500 days after Pope John Paul's election to St Peter's Throne, Italians finally appear to be coming to terms with their unpredictable Polish neighbour and his tiny city state.

Relations between Italy and the Vatican, frequently tense since the Risorgimento, deteriorated sharply last year after the mysterious death of Sig Roberto Calvi and the subsequent eruption of the scandal around his Banco Ambrosiano.

The bad feeling intensified after it became known that the Istituto Per le Opere di Religione (IOR)—the formal name of the Vatican Bank—had issued letters of patronage to reassure banks which had lent money to Banco Ambrosiano and its affiliates. Italy demanded that the Vatican assume responsibility for a share of the collapsed bank's debts worth about $1.3bn.

Pope John Paul: masterly diplomacy

Attacks on IOR and its controversial American chairman, Archbishop Paul Marcinkus, reached fever-pitch in Italy's anti-clerical newspapers after magistrates sent judicial letters to the prelate and two lay officials of the Vatican Bank, informing them they were under investigation on suspicion of fraudulent bankruptcy.

The tension between Church and State eased, however, after the Pope at last broke silence on the scandal in November. Although John Paul insisted the Vatican had no financial or legal obligation, he did say the Holy See was prepared to deal with the Italian state "to establish the truth" of the affair. The Vatican, it is thought, might make an "ex gratia" payment out of a sense of moral obligation.

The statement was widely taken as showing a strong desire for more openness and regularity in the Vatican's financial affairs, as well as for better relations with the State. That impression was accentuated when a joint commission of Italian and Vatican officials began meeting to investigate where responsibility lay for the Ambrosiano fiasco. But will the Vatican take steps to put its bank at least partly under Italian banking control?

The smoothing of relations continued after the Pope apparently decided to drop Archbishop Marcinkus from his job as bodyguard on all papal overseas trips, a post he held since the reign of Pope Paul VI. The Chicago-bred prelate, who has always denied any suggestions of misconduct since he took the helm of the Vatican Bank in 1969, was thus seen to have been "disciplined" in the eyes of those Italian political forces baying for his blood. He remains head of the IOR, however.

Later, as magistrates began unravelling what became known as the Bulgarian Connection to the May 13, 1981, assassination attempt on the Pope, Italy and the Vatican even found they had common problems of security. The Holy See became indirectly involved in the undignified war of words between Italy and the Soviet Union over the attack, just as Italy and Bulgaria recalled their respective ambassadors. The Vatican made no statement about it, however.

Sig Ilario Martella, the magistrate heading the Papal shooting investigation, did not make public his case against Sergei Ivanov Antonov, the Bulgarian airline employee arrested on November 25 for complicity in the attack on John Paul.

But the Italian Government went on record as saying the Bulgarian connection existed beyond any shade of doubt, Sig Lelio Lagoria, the Socialist Minister of Defence, called the shooting in St Peter's Square "an act of war in peacetime."

Italians became still more alarmed after two Soviet citizens were arrested on spying charges and after the announcement that a group of eight people were being investigated on suspicion of plotting to kill Mr Lech Walesa during a trip the Polish labour leader made to Rome in 1981.

It is difficult to say how long the prospect of such external threats, real or imaginary, will hold the attention of Italian public opinion. There was only limited public interest, for example, when another scandal touched the Vatican Bank this year.

Intermediaries

This time two priests were arrested and three others, including the secretary of the Vatican Bank, Monsignor Donato de Bonis, were officially notified they were being investigated in connection with a conspiracy—which first broke in 1980—by businessmen and tax officials to defraud the Italian State of billions of dollars on petroleum products during the 1970s.

Cardinal Ugo Poletti, the Pope's Vicar of Rome, came under pressure to resign for writing a recommendation for General Raffaele Giudice, the head of the Guardia di Finanza, the Financial police force in charge of customs, tax collection and fraud investigations.

General Giudice got the job but last December a court sentenced him to seven years in prison for accepting bribes in the petroleum scandal, which involved switching tax documents on home heating and fuel and diesel fuel. Businessmen involved were able to charge customers the higher of the tax levels on the two products, pay the Government the lower one and pocket the difference—estimated to have been worth the equivalent of some $2.2bn. The suggestion was that at least some prelates had acted as "unsuspectable" intermediaries in the affair.

As details of the petroleum scandal emerged, the Pope meanwhile, continued what were interpreted as his attempts to lessen Archbishop Marcinkus's role in the church, excluding him from the list of new cardinals elevated at a consistory last month.

The consistory was a masterly piece of diplomacy for other reasons too. The unexpected elevation of the Jesuit Theologian, Henri de Lubac, for example, did much to improve relations between John Paul and the powerful religious order which had been strained since the Pope appointed a personal delegate to lead the society in 1981.

The Archbishop of Paris, Cardinal Jean Marie Lustiger, who is a converted Jew, also received a red hat at the last consistory and that promotion seems certain to help mend fences between the Vatican and Israel. Relations between the two states reached an all-time low in 1982 when Israeli officials, piqued by the Pope receiving Yasser Arafat, the PLO leader, in an audience, accused the Holy See of anti-clericalism.

The Pope's continuing focus on the politics and religious life of Eastern Europe was reflected in the creation of the first cardinal resident in the Soviet Union, in the elevation of Archbishop Jozef Glemp, the Primate of Poland, to cardinal, and of other prelates working under difficult conditions in communist countries.

The consistory showed once again John Paul's ability to take unexpected but effective decisions that overcome seemingly insuperable problems. His reaction to the Ambrosiano scandal demonstrated how his open, down-to-earth approach could win him enormous popularity even among the Italians, with their deep historical distrust of the Vatican.

Tourism boost

The holy year which began last weekend, looks set to be another factor working to reconcile Italy and the Holy See. The jubilee to celebrate the 1,950th anniversary of Christ's death will doubtless help to bring increased tourist revenue to both the Italian capital and the Vatican as well as joy to the millions of Roman Catholics expected to come to Rome. The cynical see it as the Pope's atonement with Italy for the IOR involvement in the Banco Ambrosiano scandal.

But although Italians are expecting a record year for tourism, whether relations between Italy and the Vatican can remain cordial in the longer term depends on wider imponderables.

Although there is goodwill on both sides, there is little evidence that any practical steps have been taken toward revision of the Concordat, the out-of-date agreement regulating the respective roles of church and state.

And even before such a new framework for future good relations can be set up, the report by the two groups of "wise men" examining the Ambrosiano case in the joint commission will have to be compiled and acted on as necessary. Then, perhaps, Italy and the Vatican at last may be able to lay Roberto Calvi's ghost to rest.

Enjoying the calm

CONTINUED FROM PAGE 1

will the current fashionability of "rigour," promoted to the disbelief of some observers by the Christian Democrats, lead to real change?

One area where change has occurred is in Italy's foreign policy. Under Sig Emilio Colombo, Foreign Minister since May 1980, Italy has become more consistent and far more active, especially outside Europe.

Having sent a contingent to the U.N. Sinai peace force last spring, Italy dispatched about 1,000 troops to Lebanon last August to take part with the French and U.S. in the first short-lived peace keeping force there. The following month Italy took the lead in pressing for the foreign troops to be sent back after the massacres in the Palestine camps.

Now there are about 1,700 Italian troops in Lebanon, but Italy's pride at playing an important international role is offset by anxiety that if the U.S. does not succeed in easing the Israeli forces out of Lebanon Italian troops could be there indefinitely.

Italy is solidly behind the Nato position on intermediate nuclear missiles and is to install the first of 112 cruise missiles at the Comiso Base in Sicily, from the end of this year if no agreement is reached in Geneva in the meantime. Opposition to the missiles is lower than in any of the other countries involved, partly because of internal political factors and partly because Italy traditionally looks on the U.S. which will operate and pay for missiles, as its ultimate protector. Sig Colombo has however pressed for flexibility in the Geneva negotiations.

The Italian armed forces, despite their creditable performance in Lebanon, are generally weak in equipment and experience. A big re-equipment programme has been further slowed down by the recent cuts in the defence budget and pay rates are so low that good officers are hard to attract. The politicians show no more sign of wanting effective armed forces now than in the past.

It says much about the commercial priorities of modern Italy that it spends per head less on defence than almost any Nato country, yet is the third or fourth most successful arms exporter in the West.